Congressional Digest

Washington, D. C.

December, 1925

Sixty-ninth Congress Convenes

President Coolidge's Recommendations to the Congress

The New Revenue Bill for 1926

Report of World War Foreign Debt Commission

Repeal of Federal Estate Tax—Discussed Pro and Con

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The Congressional Digest

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Alice Gram Robinson, *Editor and Publisher*

Contents for December, 1925

Special Feature: Repeal of Federal Estate Tax

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The Congressional Digest

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The Sixty-ninth Congress Convenes

First, or "Long" Session, Convened December 7, 1925.

In the Senate

96 members

56 Republicans | 39 Democrats | 1 Farmer-Labor

Presiding Officer

President: Charles G. Dawes, Vice-President

Floor Leaders

Majority Leader Charles Curtis, Kans., R.

Minority Leader Joseph T. Robinson, Ark., D.

In the House

435 members

247 Republicans | 183 Democrats | 2 Socialists | 1 Independent | 2 Farmer-Labor

Presiding Officer

Speaker: Nicholas Longworth, Ohio, R.

Floor Leaders

Majority Leader John Q. Tilson, Conn., R.

Minority Leader Finnis J. Garrett, Tenn., D.

ON December 7, the 69th Congress convened in regular session. A special session of the Senate was held from March 4 to March 18, 1925. The first or "long" session of the the Congress is of undetermined length.

The Senate was called to order by Charles G. Dawes, Vice-President of the United States, who is also President of the Senate. New members presented their credentials and took the oath of office, with the exception of Gerald P. Nye, Senator from North Dakota. As there is a question of the regularity of the appointment of Mr. Nye by the Governor of that State, Mr. Nye's credentials were referred to the Committee on Privileges and Elections.

The House was called to order by William Tyler Page, Clerk of the House. The House then proceeded to elect Nicholas Longworth, of Ohio, as Speaker of the House for the 69th Congress. The new members of the House presented their credentials and took the oath of office. The first measure to be introduced in the House was the new revenue bill reported from the Committee on Ways and Means—H. R. 1—"a bill to reduce and equalize taxation, to provide revenue, and for other purposes." A total of 2,927 bills was introduced in the House on the opening day.

On December 8th, the President transmitted the annual message to the Congress. Extracts from the annual message are printed below.

The President's Recommendations to the 69th Congress

President Coolidge Outlines the Administration's Foreign and Domestic Policies

Direct Extracts From Annual Message to the Congress

IN MEETING the constitutional requirement of informing the Congress upon the state of the Union, it is exceedingly gratifying to report that the general condition is one of progress and prosperity. Here and there are comparatively small and apparently temporary difficulties needing adjustment and improved administrative methods, such as are always to be expected, but in the fundamentals of government and business the results demonstrate that we are going in the right direction. The country does not appear to require radical departures from the policies already adopted so much as it needs a further extension of these policies and the improvement of details.

Government Economy

All proposals for assuming new obligations ought to be postponed, unless they are reproductive capital investments or are such as are absolutely necessary at this time. We still have an enormous debt of over $20,000,000,000, on which the interest and sinking-fund requirements are $1,320,000,000. Our appropriations for the Pension Office and the Veterans' Bureau are $600,000,000. The War and Navy Departments call for $642,000,000. Other requirements, exclusive of the Post Office, which is virtually self-sustaining, brought the appropriations for the current year up to almost $3,100,000,000. This shows an expenditure of close to $30 for every inhabitant of our country. The local tax adds much more. These enormous expenditures ought not to be increased, but through every possible effort they ought to be reduced.

Only one of these great items can be ultimately extinguished. That is the item of our war debt. Already this has been reduced by about $6,000,000,000, which

means an annual saving in interest of close to $250,000,000. The present interest charge is about $820,000,000 yearly. It would seem to be obvious that the sooner this debt can be retired the more the taxpayers will save in interest and the easier it will be to secure funds with which to prosecute needed running expenses, constructions, and improvements.

Economy is the method by which we prepare today to afford the improvements of tomorrow.

Budget

A mere policy of economy without any instrumentalities for putting it into operation would be very ineffective. The Congress has wisely set up the Bureau of the Budget.

The purpose of maintaining the Budget Director and the Comptroller General is to secure economy and efficiency in Government expenditure. No better method has been devised for the accomplishment of that end.

The Congress has absolute authority over the appropriations and is free to exercise its judgment, as the evidence may warrant, in increasing or decreasing budget recommendations. But it ought to resist every effort to weaken or break down this most beneficial system of supervising appropriations and expenditures. Without it all the claim of economy would be a mere pretense.

Taxation

The purpose of reducing expenditures is to secure a reduction in taxes. That purpose is about to be realized. With commendable promptness the Ways and Means Committee of the House has undertaken in advance of the meeting of the Congress to frame a revenue act. As the bill has proceeded through the committee it has taken on a nonpartisan character, and both Republicans and Democrats have joined in a measure which embodies many sound principles of tax reform. The bill will correct substantially the economic defects injected into the revenue act of 1924, as well as many which have remained as war-time legacies.

The excessive surtaxes have been reduced, estate tax rates are restored to more reasonable figures, with every prospect of withdrawing from the field when the States have had the opportunity to correct the abuses in their own inheritance tax laws, the gift tax and publicity section are to be repealed, many miscellaneous taxes are lowered or abandoned, and the Board of Tax Appeals and the administrative features of the law are improved and strengthened. I approve of the bill in principle. In so far as income-tax exemptions are concerned, it seems to me the committee has gone as far as it is safe to go and somewhat further than I should have gone. Any further extension along these lines would, in my opinion, impair the integrity of our income-tax system.

Foreign Relations

We have sought, in our intercourse with other nations, better understandings through conference and exchange of views as befits beings endowed with reason. The results have been the gradual elimination of disputes, the settlement of controversies, and the establishment of a firmer friendship between America and the rest of the world than has ever existed at any previous time.

The example of this attitude has not been without its influence upon other countries. Acting upon it, an adjustment was made of the difficult problem of reparations. This was the second step toward peace in Europe. It paved the way for the agreements which were drawn up at the Locarno Conference. When ratified, these will represent the third step toward peace. The natural corollary to these treaties should be further international contracts for the limitation of armaments. This work was successfully begun at the Washington Conference. Nothing was done at that time concerning land forces because of European objection. Our standing army has been reduced to around 118,000, about the necessary police force for 115,000,000 people. We are not proposing to increase it.

The question of disarming upon land is so peculiarly European in its practical aspects that our country would look with particular gratitude upon any action which those countries might take to reduce their own military forces.

It seems clear that it is the reduction of armies rather than of navies that is of the first importance to the world at the present time. If that can be settled, we may more easily consider further reduction and limitation of naval armaments. Under congressional sanction it would seem to be wise to participate in any conference of the great powers for naval limitation of armament proposed upon such conditions that it would hold a fair promise of being effective.

We have joined with other nations in an international conference held at Geneva and signed an agreement which will be laid before the Senate for ratification providing suitable measures for control and for publicity in international trade in arms, ammunition, and implements of war, and also executed a protocol providing for a prohibition of the use of poison gas in war, in accordance with the principles of Article 5 of the treaty relating thereto signed at the Washington Conference. We are supporting the Pan American efforts that are being made toward the codification of international law, and looking with sympathy on the investigations being conducted under philanthropic auspices of the proposal to make agreements outlawing war. We are now represented at the Chinese Customs Conference and on the Commission on Extraterritoriality, where it will be our policy so far as possible to meet the aspirations of China in all ways consistent with the interests of the countries involved.

Court of International Justice

Pending before the Senate for nearly three years is the proposal to adhere to the protocol establishing the Permanent Court of International Justice.

The proposal submitted to the Senate was made dependent upon four conditions, the first of which is that by supporting the court we do not assume any obligations under the league; second, that we may participate upon an equality with other States in the election of judges; third, that the Congress shall determine what part of the expenses we shall bear; fourth, that the statute creating the court shall not be amended without our consent; and to these I have proposed an additional condition to the effect that we are not to be bound by advisory opinions rendered without our consent.

Wars do not spring into existence. They arise from small incidents and trifling irritations which can be adjusted by an international court. We can contribute greatly to the advancement of our ideals by joining with other nations in maintaining such a tribunal.

Foreign Debts

Gradually, settlements have been made which provide for the liquidation of debts due to our Government from foreign governments. Those made with Great Britain, Finland, Hungary, Lithuania, and Poland have already

been approved by the Congress. Since the adjournment, further agreements have been entered into with Belgium, Czechoslovakia, Latvia, Esthonia, and Italy.

Every reasonable effort will be made to secure agreements for liquidation with the remaining countries, whenever they are in such condition that they can be made.

Alien Property

Negotiations are progressing among the interested parties in relation to the final distribution of the assets in the hands of the Alien Property Custodian. Pending the outcome of these negotiations, I do not recommend any affirmative legislation.

Immigration

While not enough time has elapsed to afford a conclusive demonstration, such results as have been secured indicate that our immigration law is on the whole beneficial. It is undoubtedly a protection to the wage earners of this country. If investigation reveals that any considerable number are coming here in defiance of our immigration restrictions, it will undoubtedly create the necessity for the registration of all aliens.

National Defense

Never before in time of peace has our country maintained so large and effective a military force as it now has. The Army, Navy, Marine Corps, National Guard, and Organized Reserves represent a strength of about 558,400 men. These forces are well trained, well equipped, and high in morale.

A sound selective service act giving broad authority for the mobilization in time of peril of all the resources of the country, both persons and materials, is needed to perfect our defensive policy in accordance with our ideals of equality. The provision for more suitable housing to be paid for out of funds derived from the sale of excess lands, pending before the last Congress, ought to be brought forward and passed. Reasonable replacements ought to be made to maintain a sufficient ammunition reserve.

Additional training in aviation was begun at the Military and Naval Academies. A method of coordination and cooperation of the Army and Navy and the principal aircraft builders is being perfected.

I appointed a special board to make a further study of the problem of aircraft. The report of the Air Board ought to be reassuring to the country, gratifying to the service and satisfactory to the Congress. No radical change in organization of the service seems necessary. The Departments of War, Navy, and Commerce should each be provided with an additional assistant secretary, not necessarily with statutory duties but who would be available under the direction of the Secretary to give especial attention to air navigation. We must have an air strength worthy of America. Provision should be made for two additional brigadier generals of the Army Air Service. Temporary rank corresponding to their duties should be awarded to active flying officers in both Army and Navy.

Aviation is of great importance both for national defense and commercial development. We ought to proceed in its improvement by the necessary experiment and investigation.

Veterans

At the two previous sessions of Congress legislation affecting veterans' relief was enacted and the law liberalized. The principal work now before the Veterans' Bureau is the perfection of its organization and further improvements in service.

With the enormous outlay that is now being made in behalf of the veterans and their dependents, with a tremendous war debt still requiring great annual expenditure, with the still high rate of taxation, while every provision should be made for the relief of the disabled and the necessary care of dependents, the Congress may well consider whether the financial condition of the Government is not such that further bounty through the enlargement of general pensions and other emoluments ought not to be postponed.

Agriculture

No doubt the position of agriculture as a whole has very much improved since the depression of three and four years ago. But there are many localities and many groups of individuals, apparently through no fault of their own, still in a distressing condition. This is probably temporary, but it is none the less acute. National Government agencies, the Departments of Agriculture and Commerce, the Farm Loan Board, the intermediate credit banks, and the Federal Reserve Board are all cooperating to be of assistance and relief.

The farmers as a whole are determined to maintain the independence of their business. They do not wish to have meddling on the part of the Government or to be placed under the inevitable restrictions involved in any system of direct or indirect price-fixing, which would result from permitting the Government to operate in the agricultural markets.

A bill which has been drafted under the advice of substantially all the leaders and managers in the cooperative movement, will be presented to the Congress for its enactment. Legislation should also be considered to provide for leasing the unappropriated public domain for grazing purposes and adopting a uniform policy relative to grazing on the public lands and in the national forests.

A more intimate relation should be established between agriculture and the other business activities of the Nation. The work for good roads, better land and water transportation, increased support for agricultural education, extension of credit facilities through the Farm Loan Boards and the intermediate credit banks, the encouragement of orderly marketing and a repression of wasteful speculation, will all be continued.

Muscle Shoals

The findings of the special commission will be transmitted to the Congress for their information. I am convinced that the best possible disposition can be made by direct authorization of the Congress. As a means of negotiation I recommend the immediate appointment of a small joint special committee chosen from the appropriate general standing committees of the House and Senate to receive bids, which when made should be reported with recommendations as to acceptance, upon which a law should be enacted, effecting a sale to the highest bidder who will agree to carry out these purposes. This property ought to be transferred to private management under conditions which will dedicate it to the public purpose for which it was conceived.

Reclamation

The National Government is committed to a policy of reclamation and irrigation which it desires to establish on a sound basis and continue in the interest of the localities concerned. The Congress has already provided

for a survey which will soon be embodied in a report. That ought to suggest a method of relief which will make unnecessary further appeals to the Congress. It is believed that the Federal Government should continue to be the agency for planning and constructing the great undertakings needed to regulate and bring into use the rivers of the West, many of which are interstate in character, but the detailed work of creating agricultural communities and a rural civilization on the land made ready for reclamation ought to be either transferred to the State in its entirety or made a cooperative effort of the the State and Federal Government.

Shipping

The maintenance of a merchant marine is of the utmost importance for national defense and the service of our commerce.

The fleet should be under the direct control of a single executive head, while the Shipping Board should exercise its judicial and regulatory functions in accordance with its original conception.

I do not advocate the elimination of regional considerations, but it has become apparent that without centralized executive action the management of this great business will flounder in incapacity and languish under a division of council. A plain and unmistakable reassertion of this principle of unified control, which I have always been advised was the intention of the Congress to apply, is necessary to increase the efficiency of our merchant fleet.

Coal

The industry seems never to have accepted modern methods of adjusting differences between employers and employees. The industry could serve the public much better and become subject to a much more effective method of control if regional consolidations and more freedom in the formation of marketing associations, under the supervision of the Department of Commerce, were permitted.

At the present time the National Government has little or no authority to deal with this vital necessity of the life of the country. Authority should be lodged with the President and the Departments of Commerce and Labor, giving them power to deal with an emergency. They should be able to appoint temporary boards with authority to call for witnesses and documents, conciliate differences, encourage arbitration, and in case of threatened scarcity exercise control over distribution. The report of the last coal commission should be brought forward, reconsidered, and acted upon.

Prohibition

National prohibition is the law of the land. It is the duty of the Department of Justice and the Treasury Department to enforce it. But the Constitution also puts a concurrent duty on the States. We need their active and energetic cooperation, the vigilant action of their police, and the jurisdiction of their courts to assist in enforcement. I request of the people observance, of the public officers continuing efforts for enforcement, and of the Congress favorable action on the budget recommendation for the prosecution of this work.

Waterway Development

The Government made an agreement during the war to take over the Cape Cod Canal, under which the owners made valuable concessions. This pledged faith of the Government ought to be redeemed.

Two other main fields are under consideration. One is the Great Lakes and St. Lawrence, including the Erie Canal. This includes stabilizing the lake level, and is both a waterway and power project. A joint commission of the United States and Canada is working on plans and surveys which will not be completed until next April. No final determination can be made, apparently, except under treaty as to the participation of both countries. The other is the Mississippi River system.

Preliminary measures are being taken on the Colorado River project, which is exceedingly important for flood control, irrigation, power development, and water supply to the area concerned. It would seem to be very doubtful, however, whether it is practical to secure affirmative action of the Congress, except under a joint agreement of the several States. It is imperative that flood control be undertaken for California and Arizona, preparation made for irrigation, for power, and for domestic water. It is most desirable that Congress should consider the creation of some agency that will be able to determine methods of improvement solely upon economic and engineering facts, that would be authorized to negotiate and settle, subject to the approval of Congress, the participation, rights, and obligations of each group in any particular works. Only by some such method can early construction be secured.

Water Power

Along with the development of navigation should go every possible encouragement for the development of our water power.

Railroads

The railroads throughout the country are in a fair state of prosperity. Their service is good and their supply of cars is abundant. Their condition would be improved and the public better served by a system of consolidations. I recommend that the Congress authorize such consolidations under the supervision of the Interstate Commerce Commission, with power to approve or disapprove when proposed parts are excluded or new parts added. I am informed that the railroad managers and their employees have reached a substantial agreement as to what legislation is necessary to regulate and improve their relationship. Whenever they bring forward such proposals, which seem sufficient also to protect the interests of the public, they should be enacted into law.

Outlying Possessions

A very large amount of money is being expended for administration in Alaska. It appears so far out of proportion to the number of inhabitants and the amount of production as to indicate cause for thorough investigation. Likewise consideration should be given to the experience under the law which governs the Philippines. More authority should be given to the Governor General, so that he will not be so dependent upon the local legislative body to render effective our efforts to set an example of the sound administration and good government which is so necessary for the preparation of the Philippine people for self-government under ultimate independence.

Retirement of Judges

The act of March 3, 1911, ought to be amended so that the term of years of service of judges of any court of the United States requisite for retirement with pay shall be computed to include not only continuous but aggregate service.

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Ways and Means Committee Reports New Revenue Bill

IN ORDER to have a tax bill ready for the consideration of Congress at an early date, the Ways and Means Committee of the House commenced hearings on a new revenue bill on October 19, 1925. At the request of the Committee the Secretary of the Treasury presented the views of the Treasury on taxation. Extracts from the Statement by the Secretary of the Treasury to the Committee are printed below. The Committee continued public hearings until November 19, 1925, during which period recommendations were submitted by various organizations and individuals with regard to changes in the present law. The bill (H. R. 1) as finally drafted by the Committee, together with the Committee's report was presented to the House on the opening day of the session. A summary of the provisions of the proposed revenue bill is given on page 333.

Views of the Treasury on Tax Reduction

Extracts from Statement by Hon. Andrew W. Mellon, Secretary of the Treasury, Before the Ways and Means Committee of the House, Oct. 19, 1925.

Surplus

THE first matter which must be considered in any revenue bill is how much revenue the Government requires. The probable receipts and expenditures can be fairly accurately estimated for the fiscal year ending June 30, 1926, and with somewhat less certainty for the next fiscal year. In June last the President stated that the probable surplus for the fiscal year 1926 would be $290,000,000. Since June various items have come in to both sides of our statement which, while they do not change the net result, alter very considerably the total figures of expenditures and of receipts.

For 1927 the Budget has not yet determined the total of expenditures which will be necessary to run the Government. I think, however, that the surplus in 1927, with revenue based, of course, upon the present tax bill, would be between 250 and 300 million dollars. This, it seems to me, is a figure which it is safe to take as the amount by which taxes can now be permanently reduced.

A reform in taxation such as a reduction of the high surtaxes increases the taxable income through stimulation of business and productive investment so that what apparently would be a loss is later made up. Still it is well not to cut revenue beyond the reasonable requirements of the Government. In this connection remember that since the war period we have been living partially upon capital. I refer to the return of our investment in the War Finance Corporation, repayment of loans to railroads, the sale of surplus supplies, etc. As these sources give out, we will have to pay our current expenses out of current revenue. It seems to the Treasury that we should keep this figure of $250,000,000 to $300,000,000 as our goal of tax reduction.

Debt Payment

The suggestion has been made that we are retiring our public debt too rapidly. It is argued that the present generation should not pay but should pass the debt on to a later generation. Taking the people as a whole, there is nothing in this argument. The money represented by the debt was spent for the war. The evidence of the debt, the bonds, are all held in this country. If the first generation passed on to the second generation the burden of paying the debt at the same time the second generation must inherit the bonds representing the debt, so the second generation would receive both a liability and its equivalent asset. No net burden would pass. While taking the people as a whole it is immaterial when the debt is paid, still, as between different classes of people, the investing class holding the bonds and the producing class from whom a larger part of our taxes are collected, inequality may exist. We should not tax too heavily the producers to pay the security holders. It is for this reason that we have sought a balance between debt reduction and tax reduction.

If we analyze the sources by which our debt has been reduced nearly $5,000,000,000 from its peak to June 30, 1925, they are as follows: Over $1,033,000,000, or 20 per cent, has come from a decrease in the general fund balance; $1,678,000,000, or 33 per cent, from the surplus; $1,423,000,000, or 28 per cent, from the sinking fund, and the balance from miscellaneous sources, including foreign repayments.

The decrease in the general fund balance means that the Treasury has been able to reduce its cash in bank by over $1,000,000,000. The present working balance, however, is as low as we can safely go. This 20 per cent factor of debt reduction will have no influence in the future.

There are, however, certain factors which must continue the orderly retirement of the debt. Roughly, $20,000,000,000 of war debt is represented one-half by money spent by America in the war and one-half by money loaned to the Allies. A sinking fund based on 2½ per cent of the $10,000,000,000 used domestically was established in 1919 and it was intended that the $10,000,000,000 loaned abroad should be taken care of by repayment of the loans by the foreign borrowers. Here we have a two-fold arrangement for retirement of the war debt. In the public debt structure one obligation has no distinction over another. Each is based solely on the credit of the United States irrespective of rate of interest, date, or maturity. It is one debt. The Government bondholder has a contract, morally binding on the United States, since to violate it would be partial repudiation, that the sinking fund will be continued in accordance with its terms and that repayments of foreign loans will go to decrease the debt which was incurred for their creation.

The other principal factor in debt reduction, that of surplus, has accounted to date for over one-third of the reduction in our debt. It is proposed to exhaust this surplus by reducing taxes. This is sound policy. A surplus of Government receipts over expenditures should be distributed just as the profits of any other mutual organization are distributed, among its members—the taxpayers—through a reduction in their forced contributions to the State.

Of the three factors in the reduction of the debt, reduction in the general fund balance will have no effect in the future. It is intended that the surplus be exhausted

by tax reduction. There remain only the sinking fund and foreign repayments. It is admitted that Congress has the legal authority to repudiate the contract for the sinking fund and for the application of foreign repayments. It is denied that it has the moral authority. This Government has yet to break faith with the investors in its securities.

Money taken to pay the public debt is not lost. It is not paid outside the country. Payment means a return of cash to the security holders who must immediately find other investments. The Treasury debt payment has turned back to the American people $5,000,000,000 and this sum has gone into land, farm loans, and industrial and other investments. Far from hurting the country, the past policy has been a great benefit to all those who needed capital.

This country is today exceedingly prosperous. It can afford to pay off its debts without undue burden upon its taxpayers. Its history has always been prompt in extinguishment of its war debts. It is ready for the next emergency when it comes. The time to repair your roof is in good weather, not when it is raining. The time to pay your debts is when you can.

Surtaxes

In determining what taxes should be first reduced, it is important to bear in mind the distinction between a reduction of taxes which reforms the tax system and a reduction in taxes which simply reduces revenue. It has been the experience of the Treasury that every time there has been a material reduction in surtaxes it has stimulated business and brought about an increase in taxable income which has made up a great part, if not all, of the loss in revenue from the higher incomes. In 1925, the first year influenced by the 1924 Act, it is estimated that the collections will be $1,833,000,000. In other words, in spite of the very sweeping reductions carried by the 1924 Act in the lower brackets and the comparatively less reduction in the upper brackets, we will collect in 1925 more money at lower rates than we collected in 1923 at higher rates.

A reduction of the lower brackets in itself means no increase in taxable income. A man with a $5,000 salary does not carry funds in non-productive investments and a reduction of his taxes does not, therefore, create additional taxable income. A reduction in the surtax, however, increases the amount of capital which is put into productive enterprises, stimulates business, and makes more certain that there will be more $5,000 jobs to go around. It seems to me quite clear that a man with a $3,000 job, who, if married and without dependents, pays a tax of but $7.50 under the present law, or a man with a $5,000 job, who, under the same conditions, pays a tax of $37.50, is more interested in having a job than in having his taxes further reduced. What we mean by tax reform is to make more of these jobs.

What we should try to do in our taxing system is to get the lowest rates of tax consistent with adequate revenues. We want not only revenue today, but sources from which we can get revenue in the years to come. The point at which the most revenue can be derived with the least disturbance to business [has been] discussed, both in the Treasury and by economists. Some place it is as low as 10 per cent, some at 15 per cent, but certainly it is not in excess of 25 per cent.

The Treasury feels that today we are in the position to approach more closely to this point of maximum revenue and minimum disturbance to business. The revenue is available. It is estimated by the Government Actuary that if the maximum total income tax is fixed at 25 per cent, being 5 per cent normal and 20 per cent surtax, the loss of revenue in the next calendar year would be $140,000,000, and in the following calendar year $100,000,000. In other words, the first year after the act was effective, one-third of the revenue loss would be restored, and, of course, in subsequent years additional revenue would come in. It should be remembered that this loss of $140,000,000 in the first year, reduced to $100,000,000 in the second year, is a loss on the personal income taxes. It does not take into account the greater prosperity of corporations through the stimulation of business by tax reform in the personal taxes. I again refer to the fact that our total income tax revenue in 1925 exceeded that in 1923, although the former year had much higher rates. The Treasury does not propose any definite rates, but it presents to you the certainty that tax reform can go to a 25 per cent maximum normal and surtax without the slightest danger to our future revenues.

Estate Taxes

It is the opinion of the Treasury that the Federal estate tax should be repealed. It is quite within the revenue requirements of the Government to eliminate this tax. If not in one year, certainly the rates might be materially cut in 1926 and the whole tax repealed in 1927. The revenue collections from this tax will exist for some time after the law is repealed. Taxes are not payable until a year after the death of the decedent. There are extensions of payment beyond that date without interest and further extensions with interest. So an immediate repeal would not affect the revenue of the fiscal year 1926 and but half of that of 1927.

Miscellaneous Taxes

It seems to the Treasury that the gift tax should be repealed. This tax was fairly successful in 1925, bringing in $7,000,000, because the 1924 Revenue Act though passed in June was made retroactive in this particular to January 1st. Like a great many other artificial restraints and inequalities now in our taxing law, if the surtaxes were reduced to a moderate rate, the excuse for the gift tax would disappear.

Admissions and dues brought in $31,000,000 last year, and are estimated to bring in $33,000,000 this year. It does not seem that this tax is any particular burden and in the interest of the revenue it produces it ought to be retained.

Automobile taxes, which brought in $125,000,000 last year, can be divided roughly into $90,000,000 for automobiles and $35,000,000 for trucks, tires and accessories. The $35,000,000 might be taken off, but so long as the Federal Government is contributing over $90,000,000 a year to roads on which these automobiles run, they certainly ought to be made to pay their way.

The tax on jewelry, etc., was so amended as to make its avoidance easy. The tax yielded $9,000,000 in 1925, and is estimated to yield $8,000,000 this year.

There are several of the miscellaneous taxes which hardly yield enough to justify their retention, and their elimination in the interests of simplicity in our tax law might be considered.

Publicity of Returns

There is a provision in the present act for publicity of the amount of tax paid by every taxpayer. The publicity is utterly useless from a Treasury standpoint. The

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The Proposed Revenue Act of 1926

Principal Amendments Made to the Revenue Act of 1924 by H. R. 1. Reported to the House of Representatives from the Ways and Means Committee on December 7, 1925.

1. The normal taxes imposed under the Revenue Act of 1924 are 2 per cent on the first $4,000 of net income, 4 per cent on the next $4,000, and 6 per cent on the remainder. The proposed bill reduces these rates to 1½ per cent on the first $4,000, 3 per cent on the next $4,000, and 5 per cent on the remainder.

2. The surtax rates under existing law begin at 1 per cent on the amount between $10,000 and $14,000 and are progressively graduated until they reach the maximum on incomes in excess of $100,000. The proposed bill retains the progressive graduation system, and the taxes begin with 1 per cent upon the amount between $10,000 and $14,000 and reach the maximum rate of 20 per cent at $100,000.

3. The earned income provision of existing law provides that no amount in excess of $10,000 shall be considered as earned income. The proposed bill increases the $10,000 limitation to $20,000.

4. Under existing law the estate tax rates begin at 1 per cent on the first $50,000 of net estate and progressively increase to 40 per cent upon the amount of the net estate in excess of $10,000,000. Under the proposed bill the rates begin at 1 per cent on the amount of the net estate not in excess of $50,000 and progressively increase to 20 per cent upon the amount of the net estate in excess of $10,000,000. Under the existing law a 25 per cent credit against the Federal estate tax is allowed for State inheritance taxes. The proposed bill increases this credit to 80 per cent. In the interest of finality the bill provides that an estate shall not be allowed credit for any taxes paid by it 4 years after its Federal return is filed.

5. The gift tax is repealed as of January 1, 1926.

6. The taxes on cigars are reduced as indicated in the attached table:

Class	Description	H. R. 1	Act of 1924
	Cigars weighing not more than 3 lbs. per thousand	$0.75	$1.50
	Cigars weighing more than 3 lbs per thousand, if manufactured or imported to retail at—		
A	Not more than 5 cents each	2.50	4.00
B	More than 5 cents and not more than 8 cents each	4.50	6.00
C	More than 8 cents and not more than 15 cents each	7.00	9.00
D	More than 15 cents and not more than 20 cents each	10.50	12.00
E	More than 20 cents each	13.50	15.00

7. The tax on automobile trucks is repealed upon the enactment of the act.

8. The tax on passenger automobiles is proposed to be reduced from 5 to 3 per cent 30 days after the enactment of the act.

9. The tax upon tires, inner tubes, parts and accessories is repealed upon the enactment of the act.

10. The following excise taxes are repealed upon the enactment of the act:

Cameras; photographic films and plates; firearms, except pistols; cigars, cigarette holders and pipes; coin operated devices; mah jongg sets.

11. The following occupational taxes are repealed, such repeal to be effective July 1, 1926: Brokers, pawn brokers, ship brokers, custom house brokers, proprietors of bowling alleys, proprietors of billiard rooms, proprietors of shooting galleries, proprietors of riding academies, persons carrying on the business of operating or renting passenger automobiles for hire, manufacturers of tobacco, manufacturers of cigars, and manufacturers of cigarettes.

12. The special tax on the use of boats, other than foreign built boats, is also repealed, such repeal to become effective July 1, 1925.

13. The tax of $3 upon physicians administering narcotics is proposed to be reduced to $1.

14. The stamp taxes upon conveyances, powers of attorney and proxies is repealed, such repeal to become effective 30 days after the enactment of the act.

15. The tax on distilled spirits is proposed to be reduced on Jan. 1, 1927, from $2.20 per proof gallon to $1.65 and a further reduction is proposed on Jan. 1, 1928, to $1.10 per proof gallon.

16. The tax proposed on cereal beverages containing less than ½ of 1 per cent alcohol is 1-10 of 1 per cent per gallon.

17. The bill proposes to increase the salaries of the members of the Board of Tax Appeals from $7,500 per year to $10,000 per year and to give the members life tenure. The bill also materially changes the taxing machinery in the case of appeals, under the new act, in the interest of finality. In the case of deficiency assessments made after the passage of the new act no claims for refund will be allowed after the passage of the new act if a taxpayer acquiesces in the deficiency found by the Commissioner or fails to appeal his case to the Board within the 60 day period after the date of the issuance of the deficiency letter. The taxpayer will have no further right to open his case for that year, and the Commissioner will be barred from opening the case for that year except in the case of fraud. Under the new procedure if a taxpayer appeals his case to the Tax Board he must raise all questions which he desires to raise before the Tax Board. And if he is not satisfied with the decision of the Tax Board he must appeal direct to the Circuit Court of Appeals of the district in which he resides. Under existing law if a taxpayer is not satisfied with the decision of the Tax Board he can pay the tax and file claim for refund and when the claim for refund is rejected, file suit for the amount of the refund in the district court. Under the new procedure this system in the case of assessments made after the passage of the act will be entirely eliminated, and the taxpayer's sole appeal will be from the Tax Board to the Circuit Court of Appeals in the district in which he resides.

18. The bill creates the office of General Counsel for the Bureau of Internal Revenue in the Treasury Department and provides that when the first General Counsel is appointed the office of the Solicitor of Internal Revenue in the Department of Justice will cease to exist. The bill provides that the General Counsel's salary shall be $10,000 per annum and that he shall be appointed by the President, by and with the advice and consent of the Senate.

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Report of the World War Foreign Debt Commission

Extracts from the Annual Report of the Secretary of the Treasury for 1925

THE present members of the World War Foreign Debt Commission are: Andrew W. Mellon, Secretary of the Treasury, chairman; Frank B. Kellogg, Secretary of State; Herbert Hoover, Secretary of Commerce; Reed Smoot, U. S. Senator; Theodore E. Burton, Member of the House; Charles R. Crisp, Member of the House; Richard Olney, formerly Member of the House; Edward N. Hurley, formerly chairman of the U. S. Shipping Board; Garrard B. Winston, Undersecretary of the Treasury, is secretary of the Commission.

The total principal amount of obligations of foreign governments originally held by the Treasury was $10,338,058,352.20.

Debt-funding agreements executed pursuant to the authority of the act of Feb. 9, 1922, as amended by the act of Feb. 28, 1923, and as further amended by the act of Jan. 21, 1925, providing for the funding of $6,383,411,668.98, principal amount of obligations of foreign governments held by the Treasury have been concluded with the Governments of Belgium, Czechoslovakia, Esthonia, Finland, Great Britain, Hungary, Italy, Latvia, Lithuania, and Poland.

As the funding agreements with Belgium, Czechoslovakia, Esthonia, Latvia, and Italy have not yet been ratified by Congress or by the respective Governments, the delivery of the new bonds provided for in the funding agreements has not yet been effected. For brief reports regarding the negotiations and execution of the funding agreements, see the Annual Reports of the World War Foreign Debt Commission contained in the Annual Reports of the Secretary of the Treasury for the fiscal years ended June 30, 1922, 1923, and 1924, and pages 51 to 67 of the report for 1925.

The commission, convinced that there can be no permanent recovery in Europe until the interallied debts have been fairly adjusted has been actively cooperating with the State Department during the past year in its efforts to bring about negotiations and settlements of the unfunded debts of foreign governments to the United States. Not only is it essential to remove the debt question as a source of international friction between governments, but it is perhaps more important that the several debtor nations preserve the sanctity of their respective obligations.

The commission in its settlement with Great Britain, made on June 19, 1923, and in subsequent negotiations or settlements has adhered to the principle that the adjustments made with each government must be measured by the ability of the particular government to put aside and transfer to the United States the payments called for under the funding agreement. No settlement which is oppressive and retards the recovery and development of the foreign debtor is to the best interests of the United States or of Europe.

Early in 1925, after much consideration, it was decided that it was contrary to the best interests of the United States to permit foreign governments which refuse to adjust or make a reasonable effort to adjust their debts to the United States to finance any portion of their requirements in this country. States, municipalities, and private enterprises within the country concerned were included in the prohibition. Bankers consulting the State Department were notified that the Government objected to such financing. While the United States was loath to exert

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Obligations of Foreign Governments Held by the United States

Statement showing obligations of foreign governments held by the U. S. Treasury, interest accrued and remaining unpaid thereon as of last interest period prior to or ending with November 15, 1925, or in cases where Funding Agreements have been concluded as of the dates of funding, and principal and interest payments heretofore made.

Countries	Principal	Interest	Total Indebtedness	Pymts. on Acct. of Principal	Pymts. on Acct. of Interest
Armenia	$ 11,959,917.49	$ 3,499,270.70	$ 15,459,188.19		
Austria	24,055,708.92	7,216,712.70	31,272,421.62		
Belgium (1)	376,153,730.76	40,750,429.94	416,904,160.10	$ 2,933,469.67	$ 18,736,210.65
Cuba				10,000,000.00	2,286,750.08
Czechoslovakia (1)	91,879,671.03	23,120,328.97	115,000,000.00		304,178.09
Esthonia (1) (2)	13,999,145.60	1,763,777.85	15,762,923.45		1,441.88
Finland (2)	8,910,000.00		8,910,000.00	90,000.00	981,615.27
France	3,340,516,043.72	963,496,233.83	4,304,012,277.55	64,302,901.29	231,569,831.44
Great Britain (2)	4,554,000,000.00		4,554,000,000.00	248,181,641.56	701,516,657.11
Greece	15,000,000.00	3,000,000.00	18,000,000.00		1,159,153.34
Hungary (2)	1,972,883.00		1,972,883.00	9,672.50	44,961.81
Italy (1)	1,647,869,197.96	394,130,802.04	2,042,000,000.00	164,852.94	57,598,852.62
Latvia (1)	5,132,287.14	642,712.86	5,775,000.00		130,828.95
Liberia	26,000.00	7,418.85	33,418.55		861.10
Lithuania (2)	6,045,225.00		6,045,225.00	30,000.00	137,221.97
Nicaragua	84,090.28		84,090.28	82,513.86	15,321.01
Poland (2)	178,560,000.00		178,560,000.00		2,548,224.28
Rumania	36,128,494.94	11,283,378.62	47,411,873.56	1,794,180.48	263,313.74
Russia	192,601,297.37	68,390,104.49	260,991,401.86		7,930,094.33
Yugoslavia	51,037,886.39	15,653,058.75	66,690,945.14	720,600.16	636,059.14
Total	$10,555,931,579.60	$1,532,954,229.60	$12,088,885,809.20	$328,309,832.16	$1,025,861,578.37

(1) *Funding agreements concluded but not approved by Congress. Funding bonds will be delivered in exchange for obligations now held when agreements are approved.*

(2) *Credit of $1,932,923.45 allowed by Funding Agreement due to loss of cargo carried on ship sunk by mine.*

(3) *Funding bonds received under terms of agreements concluded under acts of Congress approved Feb. 9, 1922, Feb. 28, 1923, March 12, 1924, May 23, 1924, and Dec. 22, 1924.*

Special Feature

Proposed Repeal of Federal Estate Tax

President Coolidge Reviews Estate Tax Problem

Extracts from Address by President Coolidge at the National Conference on Inheritance and Estate Taxation at Washington, D. C., February 19, 1925

I HAVE often urged economy in outgo of revenue; it is equally as necessary that we establish economy in income of revenue. The burden of taxation is not what the state takes, but what the taxpayer gives.

The first field for the practice of economy in inheritance tax collection lies in state cooperation. There is competition between states to reach in inheritance taxes not only the property of its own citizens, but the property of the citizens of other states which by any construction can be brought within the grasp of the tax gatherer. A share of stock represents a most conspicuous example of multiple inheritance taxation. It is possible that the same share of stock, upon the death of its owner, may be subject to taxation, first, by the Federal Government; then by the state where its owner was domiciled; then by some other state which may also claim him as a citizen; again in the state where the certificate of stock was kept; in the state where the certificate of stock must be transferred on the corporation's books; in the state or states where is organized the corporation whose capital stock is involved; and, finally, in the state or states where this corporation owns property. All this means not only an actual amount of tax which may under particular circumstances exceed 100 per cent of the value of the stock, but the expense, delay and inconvenience of getting clearances of the states who claim a right to tax the property is a serious burden to the heir who is to receive the stock. Particularly is this expense disproportionate to a tax paid by a small estate which has but a few shares of stock. In many cases the expense alone must exceed the total value of the shares which it is sought to transfer. Looking at it from the standpoint of state revenue, I am told it is probable that the full cost to executors of ascertaining the tax and obtaining the necessary transfers is in the aggregate nearly as much as the tax received by the states upon this property of non-resident decedents. Here, indeed, is extravagance in taxation.

The second field of extravagance in the collection of taxes—a wrong system—rests, not with the states alone, but there must be included also the Federal Government. It matters not in this particular who levies the tax, but the sole question is whether the total of all taxes collected is so excessively high as to be economically unsound. We have come to a point of estate and inheritance taxation, reaching as it does 40 per cent in the Federal law and perhaps higher in some states, where the total burden closely approaches, if it is not actually, confiscation.

I do not believe that the Government should seek social legislation in the guise of taxation. We should approach the questions directly, where the arguments for and against the proposed legislation may be clearly presented and universally understood. If we are to adopt socialism, it should be presented to the people of this country as socialism, and not under the guise of a law to collect revenue. I do not feel that large fortunes properly managed are necessarily a menace to our institutions and therefore ought to be destroyed. On the contrary, they have been and can be of great value for our development. In approaching the second field of extravagance, I, therefore, shall not consider inheritance and estate taxes as a social effort, but as a revenue measure.

Differing from income taxes inheritance and estate taxes are capital taxes, they take a part of the accumulated capital of the nation. This capital is not usually represented by cash or readily marketable securities, but it may be a business built up by the decedent through his lifetime, or property long held, for which there is no immediate market. In consequence, to pay inheritance and estate taxes in cash, executors must sell the property which comes into their hands at what is equivalent to a forced sale, with the usual consequences of loss in value. I venture to say that for executors to pay a 40 per cent tax they would have to realize in cash, in the ordinary large estate, probably 60 per cent of the appraised value of the estate.

The effects of these excessive taxes are twofold: First, they tend to lower values throughout the country by reason of forcing upon the market securities which cannot be readily absorbed, thus lowering the very level of values upon which inheritance and estate taxes are actually based. Secondly, they take away the inspiration to work in order to build up a business or create a property. It is difficult to overestimate the contribution to the progress of this country made by the man of ability actuated largely by this motive to protect the future of his family. If America had not been free to any man to make his fortune within the law and within his abilities, we would not be the great nation we are today. To destroy incentive is to lessen the production and the prosperity of the country.

The position has been taken that the Federal Government should withdraw from the field of estate taxes. This view has much to commend it. The right to inherit property owes its existence, not to any Federal law, but to the laws of the states. Federal estate taxation, therefore, has not the natural excuse which is conceded to state inheritance taxation. The Federal Government being in the field, however, particularly with rates as excessive as those recently adopted, results in a very material decrease in the amount and value of the property upon which the states levy their inheritance taxes. If the states are to suffer diminution in revenue from this source, they can make up their losses only by higher taxes in other fields. Already the taxes levied by the states upon land are so high as to menace the prosperity of the farmer. For the sake of the revenue which the Federal Government receives from this source—being in the last fiscal year only $103,000,000 out of $2,700,000,000 total internal revenue taxes for that year—the Federal Government should be careful to see that indirectly it is not taxing the very persons whom it most wishes to relieve. While we may not be able to absorb so great a loss of revenue in one year, we could provide for gradual retirement from the field as our government expenses decrease. —Extracts see 2, p. 359.

Recommendations of the Treasury Relative to the Estate Tax

Extracts from Address by the Hon. Andrew W. Mellon, Secretary of the Treasury, at Convention of Mississippi Bankers Association at Jackson, Miss., May 5, 1925.

ONE of the most promising aspects of the whole tax controversy now before the country is the wholesome revival of interest in the division of taxing powers between the Federal and State Governments. A conference on inheritance taxes was held by the National Tax Association at Washington in February, at which President Coolidge spoke and suggested the desirability of having the Federal Government leave to the States the field of inheritance taxes. A nation-wide committee will study this question during the coming months for the purpose of formulating, if possible, a working basis of cooperation among the various States.

The reason given by the President for his recommendation was that the efforts of both State and National Governments to tap the same sources of revenue in levying death taxes have resulted in overlapping systems of taxation which impose undue burdens upon the taxpayer and at the same time threaten the destruction of certain sources of revenue of comparatively little importance to the Federal Treasury but of great importance to the State Governments. With these views, as expressed by the President, I entirely agree. Inheritance or income taxes, or any other taxes which necessity may require, may be levied either by the National or the State Governments for the purpose of raising necessary revenue or in times of great emergency. But where no pressing necessity for raising revenue exists, as in the case of Federal estate taxes, and particularly where the tax is increasingly ineffective in producing revenue and is destructive of capital values merely for the purpose of meeting current expenses and without compensating advantages, it seems to me that the retention of such a tax as a part of the Federal system of taxation is neither economically sound nor financially expedient.

Congress and the Estate Tax

From 1797 to 1925

5th Congress—1797-1799

An Act laying duties on stamped vellum, parchment and paper. Approved July 6, 1797 (1 St. L., 527). Sec. 1. Legacies and distributive shares of personal property.

37th Congress—1861-1863

An Act to provide internal revenue to support the Government and to pay interest on the public debt. Intr. on March 3, 1862, by Mr. Stevens, Repr., Pa., H. R. 312. Approved July 1, 1862 (12 St. L., 432). Sec. 111. Legacies or distributive shares arising from personal property. There was no discussion of this section.

38th Congress—1863-1865

An Act to provide internal revenue to support the Government, to pay interest on the public debt and for other purposes. Intr. on April 14, 1864, by Mr. Morrill, Repr., Vt., Whig, H. R. 405. Approved June 30, 1864 (13 St. L., 223). Sec. 124. Legacies and distributive shares of personal property. Mr. Morrill on introducing the bill refers to Sec. 124 briefly, remarking that under present tax laws legacies to personal property are taxed, thus implying that the Act of 1864 is the first taxing transmission of real estate.

39th Congress—1865-1867

An Act to reduce internal taxation and to amend an Act entitled Act to provide internal revenue to support the Government, to pay interest on the public debt, and for other purposes, approved June 30, 1864. Intr. by Mr. Morrill, Repr., Vt., Whig, on April 25, 1866, H. R. 513. Approved July 13, 1866 (14 St. L., 98). Sec. 123. Amending Sec. 124 of Act of June 30, 1864, to exempt legacies to minors which do not exceed $1,000 in value, and if they should so exceed, the excess above that sum only to be subject to tax.

41st Congress—1869-1871

An Act to reduce internal taxes, and for other purposes. Approved July 14, 1870 (16 St. L., 256). Sec. 1. Repeal, as of May 1, 1871, of provisions of Act of June 30, 1864, and amendatory acts.

55th Congress—1897-1899

An Act to provide ways and means to meet war expenditures and for other purposes. Intr. by Mr. Dingley, Me., R., on Apr. 25, 1898, H. R. 10100; approved June 13, 1898 (30 St. L., 448). Sec. 29. Legacies and distributive shares of personal property. There was no discussion on this section in the House. Sen. Allison, Ia., R., when introducing the bill in the Senate implied that while he had voted for the "succession tax" in committee and would do so on the floor, his support was half-hearted (Cong. R. v. 31, 4931). On May 23, Sen. Chilton, Tex., D., spoke in favor of the section (Cong. R.* v. 31,5091). Sen. Caffery, La., D., on May

*Congressional Record.

25, spoke against the section, saying that the levy of an inheritance tax was not within the power of the Federal Government, and that it was indefensible in point of law and of policy. Sen. Wolcott, Colo., R., on May 28, also spoke for the section (Cong. R. v. 31, 5330), claiming that the provision interfered with none of the thirteen states then collecting the tax.

57th Congress—1901-1903

Act to repeal war revenue taxation, and for other purposes. Approved April 12, 1902 (32 St. L., pt. 1, 96). Sec. 7. Repeal of Sec. 29, Act of June 13, 1898.

63rd Congress—1913-1915

An Act to reduce tariff duties and to provide revenue for the Government, and for other purposes. Intr. by Mr. Underwood, Repr., from Ala., D., on Sept. 8, 1913, H. R. 3321. Approved Oct. 3, 1913.

Amendment, offered by Sen. Norris, Nebr., R., on Aug. 29 (Cong. Rec. v. 50, 3890), held over and again offered on Sept. 8 (Cong. R. v. 50, 4422-27), at which time Mr. Norris during a discussion of the amendment, used the words: "the principal object of my amendment is to break up swollen fortunes." The Norris amendment was rejected on Sept. 8 after a brief discussion by Sen. Gallinger, N. H., R., and Sen. Works, Calif., R., and Sen. Sutherland, Utah., R., the two latter in favor of an inheritance tax, but believing Mr. Norris' theory to be wrong. An inheritance tax amendment to the Underwood tariff bill was then offered by Sen. Jones, Wash. R. (Cong. R. v. 50, 4469), but was also rejected.

64th Congress—1915-1917

An Act to increase the revenue and for other purposes. Intr. by Mr. Kitchin, Repr., N. C., D., on July 1, 1916, H. R. 16763. Approved Sept. 8, 1916 (39 St. L., pt. 1, 756).

Sec. 200. Estate Tax. Mr. Kitchin spoke in favor of this section on July 6, 1916 (Cong. R. v. 53 app. 1938) using the non-partisan argument, claiming the inheritance tax to have had both Democratic and Republican support, and citing instances of such support. On July 10, there was considerable discussion of this section. Senator Keating, Colo., R., spoke for it (Cong. R. v. 53 app., 1398) saying that a Federal inheritance tax becomes a political and economic necessity because the states are not in a position to fully avail themselves of it and cannot effectively enforce the tax. Mr. Curry, Repr., Calif., R., spoke against the section (Cong. R. v. 53 app. 1403). He admitted that the Federal Government had the power to levy the estate tax but denied it had the moral right to do so. Mr. Curry submitted statements, printed in full in the Record, supporting his attitude, from the Calif State Bd. of Equalization, the Wisc. Tax Commission, the Comptroller of the State of New York, and the Comptroller of the State of Calif. Another speaker against the section, on July 10, was Mr. Richard W. Parker, N. J., R. (Cong. R. v. 53 app., 1499), who maintained that the Federal Government had no power over the law of descent and distribution, which is in the full control of the states. Also speaking on the section this day, without taking decided positions were Mr. Good, Ia., R. (Cong. R. v. 53 app., 1458) and Mr. Dillon, S. D., D. Mr. Good reviewed prior party action on earlier inheritance tax measures, particularly the Payne bill, closing with the words: "It certainly cannot be said that an inheritance tax is not Republican doctrine." Mr. Dillon confined his remarks to a critical analysis of the inequities of the proposed clause, while not opposing the clause, and supporting the bill as a whole. The section next came before Congress on Aug. 15, when Mr. Helvering, Kans., R. (Cong. R. v. 53 app., 1771), speaking in favor of it, stated what the committee's estimate of the yield of the tax would be. On Aug. 22, Mr. Sabath, Ill., D., (Cong. R. v. 53 app., 1870) spoke at some length in favor of the inheritance tax in general. The text of the inheritance tax bill (H. R. 8929), introduced by Mr. Sabath in this section, is printed in full. This bill was largely used by the Committee on Ways and Means in framing the inheritance tax clause of H. R. 16763, Mr. Sabath stated. Senator Sherman, Ill., R., spoke in favor of a Federal tax levy but against the Federal levy of an inheritance tax unless the latter be divided with the states; Aug. 24 (Cong. R. v. 53, 13097). Mr. Saunders, Va., D., spoke in favor of the section on Aug. 25 (Cong. Rec. v. 53 app., 1910), using the breaking up of large estates argument. Sen. Oliver, Penn., R., on Aug. 28, declared he was not opposed to an inheritance tax as such, and was in favor of legislation which would break up great fortunes, referring to the Pennsylvania collateral inheritance tax which had then been in existence for 90 years. The last speaker on this section was Mr. Norris, Neb., R. (Cong. R. v. 53, 13871), supporting the tax and reviewing the provisions of the Norris amendment to the Underwood Tariff Bill providing for a progressive inheritance tax.

65th Congress—1917-1919

An Act to provide revenue and for other purposes. Intr. by Mr. Kitchin, Repr., N. C., D., on Sept. 3, 1918, H. R. 12863. Approved Feb. 24, 1919 (40 St. L., pt. 1, 1057).

Sec. 400. Estate Tax. The discussion on this section was brief. Mr. Kitchin on Sept. 7, 1918, (Cong. R. v. 56, pt. 12, 692), made a statement of the provisions of the estate tax clause and the intentions of the framers of the bill in regard to the clause, and presented a comparison of the rates of the existing law and an estimate of the yield of the tax under the proposed law. Mr. Hull, Repr., Tenn., D., on Sept. 27, spoke in favor of the estate tax. He deemed a Federal tax justifiable as "the burden of the State inheritance tax systems rests upon the collateral beneficiary" (Cong. R. v. 56, App., 641). On Sept. 28, Mr. Richard W. Parker, N. J., R., spoke against the tax, using the argument that the Federal Government would be invading a domain more appropriately relegated to state control (Cong. R. v. 56, pt. 12, 632). On Dec. 17, the bill having reached the Senate, Senator Gronna, N. D., R., spoke against the tax, using the state's rights argument (Cong. R. v. 57, 549).

67th Congress—1921-1923

An Act to reduce and equalize taxation, to provide revenue and for other purposes. Intr. by Mr. Fordney, Repr., Mich., R., on Aug. 15, 1921; H. R. 8245. Approved Nov. 23, 1921 (42 St. L., pt. 1, 277).

Sec. 400-411. Estate Tax. On Sept. 28, Mr. Williams, Miss., D., spoke against the present Federal inheritance tax, on the ground that it taxed the estate instead of the distributive shares (Cong. R. v. 61, 5839-40). On Oct. 3, Mr. Walsh, Mass., R., objected to existing practice whereby large estates are immune from payment of income tax during the year the estate tax is paid, and offered an amendment correcting the situation (Cong. R. v. 61, 5949). Mr. Underwood, Ala., D., objected to the Walsh proposal on the ground that an estate tax and an income tax are independent of each other, that each pyramids, that an income tax is applicable only to net income (Cong. R. v. 61, 5949-52). On Oct. 28, Sen. Jones, New Mex., D., spoke in favor of the inheritance tax in general, but against a Federal estate tax; saying "it is unfair for the Federal Government to levy any tax upon an estate as such" (Cong. R. v. 61, 6934). Other Senators speaking on this day were Sen. Williams, Miss., D., against the proposed estate tax provision being in favor of a tax upon the recipent rather than upon the decedent (Cong. R. v. 61, 6934-35). Senator King, Utah, D., spoke against a tax upon the entire estate rather than on the distributive shares (Cong. R. v. 61, 6921). Sen. McCumber, N. D., R., spoke in favor of an estate tax but in opposition to a Federal inheritance tax (Cong. R. v. 61, 6922). Sen. Wadsworth, N. Y., R., spoke in favor of the inheritance tax, but against raising of existing rates. He also offered the text of the 1921 resolution of the National Tax Assoc. in favor of the repeal of the Federal Estate Tax (Cong. R. v. 61, 6922-24). Sen. Lodge, Mass., R., spoke in favor of an inheritance tax, but objected to the present system of taxing the whole estate (Cong. R. v. 61, 6924). Sen. Lenroot, Wisc., R., spoke against the section saying "this plan of an estate tax is not based on any correct principle" (Cong. R. v. 61, 6927). On Nov. 23, Sen. Hitchcock, Neb., R., while presenting the conference report on H. R. 8245, reviewed the struggle on the floor of the Senate over the estate tax clause, and the action of the conferees on the amendments (Cong. R. v. 61, 8159).

68th Congress—1923-1925

An Act to reduce and equalize taxation, to provide revenue and for other purposes. Intr. by Mr. Green, Repr., Ia., R., on Feb. 7, 1924; H. R. 6715. Approved June 2, 1924 (43 St. L., pt. 1, 253).

Sec. 300-318. Estate Tax. On Feb. 24, Mr. Garner, Tex., D., spoke in favor of a higher inheritance tax rate, and upheld the constitutionality of the inheritance tax (Cong. R. v.

65, 2437-38). On Feb. 16, Mr. Ramseyer, Ia., R., made his first speech on this section (Cong. R. v. 65, 2578) in favor of an increased inheritance tax to lift the burden on enterprise. He spoke again on Feb. 23 (Cong. R. v. 65, 3019) and again on Feb. 25, when he offered an amendment fixing the maximum rate at 40%. During this speech Mr. Ramseyer directed attention to the fact that the inheritance tax in Great Britain and in France, although the national wealth in both countries is less than that of the U. S., yields larger returns than does the same tax in the U. S. (Cong. R. v. 65, 3102-3). Mr. Mills, N. Y., R., spoke on Feb. 25 against a Federal estate tax saying that "hitherto the Federal Government has recognized that property passes by virtue of State laws and not by virtue of any Federal law, and that therefore the inheritance tax which is a tax on the right to inherit property, belongs to the States. Mr. Mills also recalls that whenever a Federal estate tax has been levied it has been as an emergency tax (Cong. R. v. 65, 3103-5). The Ramseyer amendment precipitated prolonged discussion of the inheritance tax on Feb. 25. Following Mr. Mills, Mr. Frear, Wisc., R., spoke in favor of the inheritance tax as a means to hidden wealth, saying "it is the only way you can reach these tax-exempt securities" (Cong. R. v. 65, 3105). Mr. Garner, Repr., Tex., D., also spoke in favor of the inheritance tax, "as a peace tax as well as a war tax" (Cong. R. v. 65, 3105-06. Mr. Treadway, Repr., Mass., R., on the same day spoke against a Federal inheritance tax because "I do not see why we should deprive the States of certain rights they must exercise in the way of taxation" and that "you (Congress) are never going to have a better opportunity to show your interest in state rights than here today." (Cong. R. v. 65, 3106). Mr. Connally, Repr., Tex., D., spoke in favor of the inheritance tax, saying "I trust we shall make it a permanent taxing policy of this Nation, in order that the accumulation of great wealth shall pay its just share toward the expenses of the Federal Government." (Cong. R. v. 65, 3106-07). Mr. Chindblom, Ill., R., spoke against a Federal inheritance tax using the States rights argument, and pointed out the confusion arising from the indiscriminate use of the words estate tax and inheritance tax. He maintained that the Federal Government has no power to levy an inheritance tax, but that the tax provided for in the present bill is an excise tax which Congress has the constitutional right to levy. Mr. Chindblom also submitted a table of the percentage of its total revenue received by each State from the inheritance tax (Cong. R. v. 65, 3107-09). Mr. Kelly, Penn., R., spoke in favor of a Federal estate tax on the ground that lack of uniformity in inheritance tax rates in the States invites tax dodging, and that the only practicable way to secure uniformity is for the U. S. to levy these taxes at figures which compel the cooperation by the States (Cong. R. v. 65, 3109-10). Mr. Sanders, Ind., R., speaking against the tax appealed to Congress not to put this additional tax upon the property of the States (Cong. R. v. 65, 3110). Mr. Quin, Miss., D., spoke for the inheritance tax, using the breaking up of great fortunes argument (Cong. R. v. 65, 3110-11). Mr. Celler, N. Y., D., spoke in favor of the inheritance tax but only as a State tax (Cong. R. v. 65, 3111-12). Mr. Griffin, N. Y., D., spoke in favor of the Ramseyer amendment because "I believe it is essentially the function of the Federal Government to take control of the regulation and taxation of the transfer of estates." (Cong. R. v. 65, 3112). Mr. Tilson, Conn., R., spoke against the levy of the tax because "the right to transfer property by inheritance is a State right and not one that we hold under the Federal Government." (Cong. R. v. 65, 3112-13). Mr. Davey, O., D., spoke in favor of the Ramseyer amendment, using the argument that great fortunes ought to be made to pay a generous share for the conduct of the government which makes them possible and which keeps them in existence (Cong. R., v. 65, 3113). Mr. Longworth, O., R., spoke in favor of an inheritance tax but against the Ramseyer amendment, proposing the appointment of a committee or commission to decide how far the States should be deprived of this source of revenue (Cong. R. v. 65, 3114). Two more statements were made in the House before the measure was sent to the Senate. Mr. Hastings, Okla., D., on Feb. 29, spoke for the Ramseyer amendment (Cong. R. v. 65, 3372), and Mr. Celler spoke again on Feb. 29, against the Ramseyer amendment, but, while in favor of the highest kind of an inheritance tax, he was opposed to competition between the Federal and State Governments in the levying of an inheritance tax.

Senator Smoot, Utah, R., on introducing the Revenue Bill in the Senate on April 24, briefly analyzed the estate tax provision: "Estate taxes are a levy upon capital, and, to the extent that they are used to defray the current operating expenses of the Government, capital is being destroyed to meet current needs." (Cong. R. v. 65, 7068).

Death Duties in the States

Diversity of State Legislation

Extracts from Addresses by Roy C. Osgood, Vice-President, First Trust and Savings Bank, Chicago, and Russell L. Bradford, of the New York Bar, delivered at the National Conference on Inheritance and Estate Taxation, at Washington, D. C., Feb. 19-20, 1925.

THE settlement of decendents' estates in its relation to inheritance taxes is naturally conditioned upon the laws imposing such taxes. The practical difficulties in the settlement of such estates are either lessened or magnified by the provisions of such laws or the manner of their enforcement. Most of the difficulty grows out of the laws themselves. With the growth of inheritance tax legislation and the increase in tax rates, many difficulties formerly of local or minor importance have become national and of great importance.

The country's system comprises the Federal estate and gift taxes and the succession taxes of the states. The Federal taxes are probably excise taxes, if they are grounded on the Constitution of the United States. The taxes of the states have generally been adjudicated as excise taxes. Some states have held they are based on the right to receive, some on the right to transmit, some on both rights. In the states there are two classes, estate and succession taxes. Florida has recently prohibited inheritance taxes by a constitutional amendment. Alabama and the District of Columbia have no inheritance tax legislation.

(1) Estate taxes. The estate tax is based on the estate as a whole and not on separate beneficial shares. The Federal gift and estate taxes are of this character. Four states have so-called estate taxes. The Mississippi act is based on the net estate of the decedent and is like the Federal act in character but of course is divergent on the problem of property of non-residents. Oregon, Rhode Island and Utah have so-called estate taxes that are in effect succession taxes. Oregon taxes the entire net estate and levies an additional succession tax on collateral inheritances. Rhode Island has an estate tax in addition to a succession tax. The Utah tax, while imposed on the entire estate, is assessed against the separate beneficiaries and has been upheld as a succession tax.

(2) Succession taxes. The remaining states have the

succession tax based on the interest transferred to each beneficiary.—Extracts, see 12, p. 359.

Double Taxation

For practical purposes we may say that Georgia, Maryland, Nebraska, Rhode Island and Vermont, and to a lesser extent, Delaware, impose no death duty upon personal property of non-resident decedents. Of course, real estate is taxed wherever situated, but except in New Jersey and the states that follow her rule of apportionment real estate does not pay a duplicate or multiple tax because the state of the domicile of the decedent cannot tax real property without its jurisdiction. Thus real estate, as a class of property escapes double taxation, unless we include the Federal death duty.

Stocks: Thirty-eight states impose a tax upon the transfer of stock of domestic corporations by reason of the death of non-residents. Thus in thirty-eight instances a share of stock will bear upon the death of its owner, ordinarily, a triplicate death duty on its full value. If the corporation be incorporated within the state of domicile, there will be only two taxes. However, in the normal instances, three taxing powers would impose the death duty. The state of domicile would tax all the personal property of the decedent, wherever situated and regardless of its tax in other jurisdictions. The state of incorporation imposes a tax by virtue of jurisdiction of the property, that is, the corporation in which, through stock ownership, the shareholders each have an aliquot interest. Assume the domiciliary state is Missouri, and the stock is Pennsylvania Railroad stock and has a value of $1,000,000. If the decedent left $400,000 otherwise, that is, left a net estate of $1,400,000, Missouri would impose a tax of thirty per cent (30%) on the transfer of the property, or upon all property over $400,000, if left to a stranger to the blood. The total tax in Missouri is $383,000, of which $300,000 is payable on the Pennsylvania Railroad stock. Pennsylvania would impose a tax of ten per cent (10%), and the United States a tax of $136,000 on the full estate, or $120,000 on this stock, making a total of $520,000 or about 52% of the million dollars of stock taxed. Nine states seek to impose a tax upon the transfer of stock owned by a non-resident decedent, even though the corporation be a foreign corporation, if the foreign corporation have property within the taxing state. This provision is of highly doubtful constitutionality, and in Montana and Wisconsin it has been declared unconstitutional by the state courts. But the courts of North Carolina upheld the tax. This case is now pending in the United States Supreme Court.

If the corporation be incorporated in more than one state, as many railroads are, then thirteen states apportion the tax, that is, the value of the stocks is taxed according to the percentage of the corporate property within the state.

Bonds: The taxation of bonds for death duties presents an equally interesting study. If the bond be deposited or be physically within the state, thirty states seek to impose a tax thereon, regardless of the domicile of the decedent. Twenty-one states seek to tax registered bonds wherever situated and by whomsoever owned, if the obligor of the bond be a citizen of, or a corporation incorporated by, the taxing state.

Assuming, however, that the tax upon bonds issued by a resident debtor is valid, which is an assumption only, we would then have, on a railroad bond, for example, four or more states imposing a tax upon the full value of the property. (1) The state of domicile, (2) the state

Continued on page 358

Summary of Important Provisions in Federal Estate Tax Law

Title III—Part I—Sections 300-318 of Revenue Act of 1924, Approved June 2, 1924.

Deduction from Tax—Sec. 301 (b). The amount not to exceed 25% of the tax imposed by this section, which is paid to any State, or Territory or the D. C., for any estate, inheritance, legacy or succession tax.

Deficiency—Sec. 307. The amount by which the tax imposed exceeds the amount shown as the tax by the executor upon his return, after adjustment by assessment and abatement.

Deficiency Abatement—Sec. 312. Within 30 days after notice from the collector for the payment of an assessed deficiency, the executor may file with the collector a claim for abatement.

Deficiency Appeal—Sec. 308 (a). Should the Commissioner determine a deficiency to exist, the executor is to be notified, and within 60 days of the filing of the notice he may appeal to the Board of Tax Appeals.

Deficiency Assessment—Sec. 308 (b), (d). If the Board of Tax Appeals determines there is a deficiency, the amount so determined shall be assessed and shall be paid upon notice and demand from the collector. If the Commissioner believes that the assessment or collection of a deficiency will be jeopardized by delay, assessment shall be made immediately and demand for payment thereof shall be made.

Deficiency Extension—Sec. 308 (f). The commissioner may grant an extension for the payment of a deficiency for a period not in excess of two years, where it is shown to his satisfaction that payment upon the date prescribed will result in undue hardship to the estate.

Failure to Pay Deficiency—Sec. 309 (b). Where tax is not paid within 30 days from date of notice there shall be collected as part of the tax, interest upon the unpaid amount at the rate of 1% a month.

Failure to Pay Tax—Sec. 309 (a)(1). Where tax is not paid on due date, there shall be collected as a part of the tax, interest upon the unpaid amount at the rate of 1% a month.

Payment Date—Sec. 305.—Due date to be one year after decedent's death, with permissive contingent extension not to exceed five years to be made by the commissioner, in which case there is to be collected an interest charge of 6% from 6 months after due date to date of expiration of extension.

Rate—Sec. 301 (a). The rate is scaled from a minimum of 1% of the amount of the net estate not in excess of $50,000, increasing in 1% steps until 4% is reached and in amounts of $50,000 until $250,000 is reached; then from a minimum of 6% of net estate from $250,000 to $450,000, in 3% steps until 30% is reached and a maximum amount of $8,000,000. After this from a minimum of 30% in 5% steps until 40% is reached, which represents all net estates in excess of $10,000,000.

Subject to Tax—Sec. 301 (a). The transfer of the net estate of every decedent, whether a resident or non-resident.

Valuation of Gross Estate—Sec. 302. To be determined by including the value at the time of death of all real or personal, tangible or intangible property.

Valuation of Net Estate—Sec. 303. To be determined by deducting from the gross estates of residents and non-residents, resp., certain enumerated liabilities.

U. S. Senators Discuss Federal Estate Tax Repeal

Pro

HON. REED SMOOT
U. S. Senator, Utah, Republican
Chairman, Senate Committee on Finance

I DO NOT believe that the Government of the United States ought to include in the Revenue Bill a provision for an inheritance tax. An inheritance tax is not a tax on income but it is a tax on property. The Government has not the power to transfer the title of property from an estate to an individual or an heir of a decedent. That power rests entirely with the courts of the State. It is my opinion that the State should impose whatever inheritance tax that is imposed on any estate. It is my further opinion that the State should impose no income tax whatever and leave that source of revenue to the Government. If the State imposes an inheritance tax of 40%, like some of the states are doing, and the Government imposes a 40% inheritance tax, an estate of five million dollars consisting of a going business concern could not pay the inheritance taxes imposed by both State and Nation within the limited time provided by law without destroying the business. In fact, if the business were large enough it could not possibly more than pay the inheritance taxes.

HON. GUY D. GOFF
U. S. Senator, West Virginia, Republican

THE Federal government is doing its utmost to reduce the national debt, cut down expenditures and relieve the people of their crushing tax burdens.

The people in the states have taxed themselves more than the Federal government has ever dared tax them. Three years ago fifty-nine per cent of the taxes paid by American citizens was absorbed by the Federal government, and forty-one per cent by state and local governments. Last year the Federal government took twenty-eight per cent of the taxes, while the state and local governments absorbed seventy-two per cent.

Inheritance taxes are too high. They are clearly an invasion of the rights of the citizen. They take directly about one-third of the savings of a life time—accumulations devoted to production in all its forms. They are not only a levy on capital, but practically a confiscation of capital.

The Federal estate tax should be abolished and those of the states lowered, or all values from which the states derive their taxes will be destroyed. The inheritance tax in state and nation is generally applied to current expenses. It is seldom devoted to capital purposes. It is not used for public improvements. Thus the whole process of placing savings in capital is reversed, and capital is dissipated. The cake we should have is eaten.

Clearly the time has now come when the American people must reduce their taxes, state and federal. They must eliminate multiple taxation wherever possible, and so coordinate the taxes between our several governments that the same person or the same piece of property shall not be taxed and retaxed merely because of the incident of separate jurisdictions. This is as grotesque as it is manifestly destructive of the right to acquire and possess property. This is not a partisan question, it is an economic question.—Extracts, see 8, p. 359.

Con

HON. ARTHUR CAPPER
U. S. Senator, Kansas, Republican

WE HAVE reached a point in the economic development of the United States where it is necessary to give careful thought to the ultimate consequence of continued accumulation and concentration of vast fortunes in the hands of a very limited number of our people.

Under the old English law, from which we mainly derive our own basic law, there was no "right of inheritance." Whatever property a man possessed reverted at his death to the feudal lord or King. And so, even to this day, the right of inheritance exists merely by reason of express sanction given by the law-making bodies of our country.

Whoever is familiar with English history, or that of other great nations, knows that enormous wealth tends to accumulate and concentrate in comparatively few hands in the course of a century or two. It was to prevent this that England enacted its laws against "perpetuities," so that great fortunes might not be held intact for more than a life or lives in being at the time of the testator's death, and an additional period of twenty years.

The essential justice of an inheritance tax, whether imposed by State or Nation, is readily apparent. It takes nothing from the dead, for the dead must perforce depart empty-handed. It takes nothing from the living which they have saved or created. Its sole effect is to restore to society—the community at large—a small part of that which has been taken from them by fair means or foul. Thus the economic balance of true civilization is preserved.

Five men who died during the past two years left estates aggregating approximately $600,000,000. This vast property was not accumulated by any of them solely from the wealth of any one State. It represented wealth drawn from practically every State and from beyond the seas. Is it not right and reasonable, therefore—confronted as we are by a menacing increase in the concentration of national wealth—that the Federal government, as well as the State where the decedent lived, should share in restoring a small portion of this vast store of wealth to the people of the country, from whence it came, through reasonable inheritance taxation?

The Federal government should not and does not tax moderate inheritances. It should and does reduce the amount of its own estate tax whenever the inheritance of large fortunes is subject to State taxation. I am in thorough sympathy with the effort to bring about uniformity of rates of inheritance taxation; and to prevent the absorption of an unreasonable proportion of any estate through occasional multiplicity and overlapping of State and Federal levies. Possibly we should allow deduction from the Federal tax of an even larger proportion of the amount paid under State inheritance laws. The effectiveners of State legislation must not be lessened.

These things can be worked out with fairness to all, and without affecting or impairing the vital principle that it is right, and necessary, for the Federal government to impose a tax upon the larger inheritances.

Pro—continued

HON. DUNCAN U. FLETCHER
U. S. Senator, Florida, Democrat

I AM strongly in favor of tax reduction. This reduction should take place with respect both to the normal tax and surtax rates. To begin with, I would eliminate all estate tax.

The Federal estate tax is not a tax on inheritance but an impost upon estates, levied before anything reaches the beneficiary. Theoretically this tax is on the transfer from the dead to the living imposed upon the right of the decedent to transmit his property and not upon the right of the beneficiary to receive it.

It is true that inheritance taxation has been one of the sources of revenue for the support of government from the most ancient times. But we must not lose sight of the source and extent of the authority of the Federal Government.

I believe that tax should be eliminated from the Revenue Act. First, it is fundamentally wrong. It rests on the accident of death. It is a tax on capital, not income. Second, it is not necessary and, in the last analysis, the Federal estate tax was a war measure and has been sustained only as such. It has never been imposed heretofore, except on the basis of emergency or war necessity.

I am unable to find anything in the Constitution which gives to the United States the power to levy a contribution from the estate of a decedent upon the transmission thereof to heirs or devisees. If that is sound it ought to dispose of the question and there ought to be no attempt on the part of Congress to do what is not authorized by the Constitution.

Advocates of the estate tax, it seems to me, lose sight of several things. The common law or the laws of any other country can have no bearing on the question of the powers of the United States. The Government of the United States was created by the States and in creating it they expressly reserved all powers not granted. The Constitution says no direct tax shall be levied unless in proportion to the Census. This estate tax is a direct tax laid on all the property left by a decedent and calling it an excise tax is only an attempt to evade the Constitutional provision. The transmission of property of a decedent depends on the laws of the State and not on the law of the United States.

The United States must find its authority to take or tax property not in sovereign rights, but in the powers granted it by the States. I am unable to find that the States have granted this power to the Federal Government and that is reason enough for insisting that this field of taxation should be abandoned by the Federal Government.

The effort to force the States to levy an inheritance tax by having the Federal Government impose such a tax and then deduct 80 per cent of it from the amount paid the State is most amazing.

Florida and Alabama are the only two states which impose no inheritance tax. Florida's Constitution prohibits it. It is proposed to have the Federal Government impose such a tax and in the case of Florida taxpayers keep it all. While, as an inducement for other states to tax their people, the Federal Government will allow the taxpayers, in all states collecting that tax, to deduct from the amount the Federal Government exacts and pay it instead to their states.

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Con—continued

HON. GEORGE W. NORRIS
U. S. Senator, Nebraska, Republican

THERE is no other tax that is so little burdensome as the inheritance or estate tax. It is the only tax that is not, directly or indirectly, in any degree, a tax on consumption. There is no way of passing it on to somebody else. There is no tax that can be so easily and inexpensively collected. There is no other tax that is any more just or fair. With very few exceptions, such a tax would not take from any man a single dollar that he has done anything toward earning. The right to inherit property or the right to pass property on to others, is given to the individual by law. It is not a natural right.

Those of us who advocate a Federal estate tax or inheritance tax, are universally in favor of allowing a large exemption. I make no objection to an exemption of three or four hundred thousand dollars. Then commence the tax at a very low rate and raise it progressively until it becomes very high when the estate or inheritance reaches up into the millions.

An objection often made to this kind of a tax is that the Federal Government ought to leave it to the States. There is no logic whatever to this objection. The only authority in our country that can properly levy such taxes without hardship upon anyone and without discrimination, is the Federal Government. If the Federal Government does not levy the tax and it is left to the states, we will find the states competing with each other by offering reduced taxation to millionaires in their efforts to get them to locate within their borders, and the logical outcome would be that no state would levy much of any inheritance tax.

All taxation of inheritances or estates has two objects in view.

First, to raise revenue. The amount of revenue that can be raised in this way is enormous. If progressive inheritance or estate taxes were levied, with a large exemption, the only estates which would pay them would be those estates that are very large. The amount of such taxes would vary more than other taxes, because of the number of owners of large estates who might die in any one particular year, but the income from a series of years would be exceedingly large, and would lighten the burdens of those upon whom taxation bears down heavily.

The second object of such a tax is the prevention of the entailing of large fortunes. Such a tax would not interfere with the handling of a fortune as long as its owner lived, but when he had passed on, it would take a portion of the fortune and give it to the state—the public, which, as a matter of fact, almost universally has done something in the accumulation of the immense fortune.

Every economist of any repute concedes that the entailing of large fortunes, if unrestricted, will eventually bring hardship upon the country. The prevention of such accumulation ought to be the object of all legislative assemblies having jurisdiction of the question. Moreover, there is a limit beyond which money can buy, either comfort, luxury or pleasure. The man who is worth a hundred million dollars cannot possibly buy anything that will add to his happiness, his comfort, or his luxury, that cannot be equally and easily purchased by the man who has only a million dollars; and

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U. S. Representatives Discuss Federal Estate Tax Repeal

Pro

HON. OGDEN L. MILLS
U. S. Representative, New York, Republican

INHERITANCE taxes need no justification. They were apparently first imposed in Egypt before the dawn of history, then in the Roman Empire, and in modern days every civilized country has adopted them as part of its system of taxation. As early as 1907 it was stated by a leading economist that inheritance taxation was no longer a debatable issue but an established fact in American finance. It was the States, however, and not the Federal Government, that made them a permanent part of our financial structure, and today they are to be found in all but three of our 48 States. On the other hand, the National Government has only made use of estate or inheritance taxes four times in our history, and then only during war emergencies, in every instance until the present the tax being repealed as soon as the emergency had ended.

I believe that death taxes should be left to the States, for the simple reason that the States need this source of revenue, and the Federal Government doesn't. In the course of the last few years the latter has taken over the cream of the taxes and has left the former to struggle along as best they can with the skimmed milk. The Federal Government is collecting customs duties, income taxes on individuals and corporations, a capital stock tax, estate tax, manufacturers' tax on cigars and tobacco, taxes on admissions and dues, occupational taxes, license taxes, stamp taxes, and sales taxes, while the States and municipalities are raising almost 90 per cent of their revenue by a direct tax on property, which means, for all practical purposes, a tax on farmers and rent-payers. A special committee of the Legislature of the State of New York reported this year as follows:

"Property taxes consume a large part of the income from land. In the prosperous farming districts 30 per cent of the net income is taken in taxes. In the less productive sections the percentage is unquestionably higher. In the cities the proportion varies from 12 per cent to 33 per cent."

What is true in New York is true, I am told, to even a greater extent in other sections of the country. State and local taxes constitute today a crushing burden, which is all the greater because of the fact that it rests almost exclusively on one form of property. Moreover, while Federal taxes are steadily decreasing, State and local have shown a steady and uninterrupted rise from year to year. The net amount of taxes collected by the Federal Government in the calendar year 1924 totalled $3,095,000,000, as compared with $3,220,000,000 in 1923, $2,802,000,000 in 1922, and $4,430,000,000 in 1921. State governments collected $1,064,000,000 in 1924, $945,000,000 in 1923, $858,000,000 in 1922, and $783,000,000 in 1921. Local authorities raised $3,748,000,000 in 1924, $3,601,000,000 in 1923, $3,301,000,000 in 1922, and $3,150,000,000 in 1921.

The truth is that the question of a proper allocation of taxes between Federal and State and local governments is one of the most important financial questions before the country, and one to which we will have to devote our attention in the near future. The estate tax is just a part of this problem; but since, by tradition, it belongs to the States, and since, in actual practice, they

Continued on next page

Con

HON. WILLIAM R. GREEN
U. S. Representative, Iowa, Republican
Chairman, House Committee on Ways and Means

THE inheritance tax is one of the oldest of taxes and one of the most practical and successful. The campaign for the abolishment of the Federal inheritance tax originated in the east where it was claimed that the states needed the revenue and had been prevented by the Federal Government from using this tax to the extent that their necessities demanded. It was generally recognized that there was and could be no valid objection to the nature of the tax itself. The fact is that from an economic point of view the inheritance tax has more to recommend it than any other. On this point practically all economists agree.

The Federal inheritance tax bears but very lightly on small estates, the first $50,000 being exempt, and only 1 per cent assessed against the next $50,000, with a credit of the amount of state inheritance taxes paid. It is true that the Federal tax is graded up to 40 per cent of the amount of an estate above $10,000,000. Whether this is too high and should be reduced I do not intend to discuss, for that is not the principal issue. Certain it is, however, that even under the present rates the great fortunes of this country are rapidly increasing in amount, and there is one family fortune which is generally estimated as being increased at the rate of $100,000,000 a year. There has been much talk about estates upon which it is alleged a confiscatory rate has been applied through the total of the Federal and state inheritance taxes, but it will be observed that the name and locality of such an estate is never given.

An unanswerable objection to the abolishment of the Federal inheritance tax is that if such action should be taken the states would be unable to make use of it, particularly in the case of large estates which are the ones which above all ought to pay. Neither Florida nor the District of Columbia have any inheritance tax and a move has been started in other states to abandon it for the purpose of alluring wealthy people by exemption from taxation. A large number of the very wealthy people of the east already have houses in Florida or Washington, and it is very easy for any of them to obtain one, after which all they would have to do would be to announce that they have taken up their residence in one of these localities and thus prevent the inheritance tax from applying to their estates. The evil results of the states thus bidding against each other for the exemption of the wealthy are so apparent that they do not need to be stated. It is a generally accepted principle among modern economists that taxes ought to be levied in proportion to the ability of those assessed to pay them. This proposition may not be universally accepted, but I am at a loss to understand how anyone can contend for a plan that would result in the very wealthy not paying at all in a large number of cases. It is true that if the state levied only a very small tax and made the rate no heavier on the large estates than in the small ones, that probably in the majority of cases no change of residence would take place. But this differs from complete exemption only in degree, and in principle is equally unfair. The result of

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Pro—continued

HON. OGDEN L. MILLS—continued

need it more than the Federal Government, there is no reason why it should not be given to them now, rather than to await the final solution.

It is true that the States, by their unwillingness to adopt some uniform standard of inheritance taxation, have produced a very confused situation, resulting in the taxation of the same property many times with a complete disregard of justice. Moreover, three States, Florida being the most conspicuous one, have decided not to impose inheritance taxes, and it is claimed that these States will constitute a tax-free haven for men of wealth. Of course, the haven will not be tax-free, since what is not raised by inheritance taxes will have to be raised in some other way—very possibly by a property tax on intangibles. Moreover, I do not believe many men will transfer their residence to escape a reasonable inheritance tax in their own State, say, one with a maximum rate of 15 per cent, with no Federal tax super-imposed. The Florida bugaboo does not scare me at all, but it has certainly been used with great effect by those who desire to retain the Federal estate tax.

It has also been claimed that the Federal estate tax will tend to promote uniformity of taxation among the States, but it has never been clear to me how super-imposing a Federal tax on the already complicated system of State inheritance taxes could do more than add to the confusion—unless—and this is very important—the Federal Government's decision to stay in the field should be accompanied by a declaration that it would retire as soon as the States had put their own house in order.

This last consideration is the one which led me to acquiesce in the recommendation of the Ways and Means Committee. Faced with the fact that the Federal Government is there to stay, unless they do something, the States may now be induced to do away with double taxation, something which hitherto they have selfishly and stubbornly refused to do. In the meanwhile, with the maximum rate of the Federal estate tax reduced to 20 per cent, and the revenue needs of the States protected by the 80 per cent rebate, the temporary solution is sufficiently satisfactory to warrant acceptance at the present time, with the hope that the ultimate solution is not far off, and that when it comes it will provide for the retirement, on the one hand, of the Federal Government from the field of death duties, and, on the other, the adoption of a reasonable and uniform standard of inheritance taxation by all of the States.

HON. HENRY W. WATSON

U. S. Representative, Pennsylvania, Republican

GLADSTONE was of the opinion that the study of taxation is a subject for insanity. The preparation of a Revenue Bill, with the aid of the growth of trade and increased wealth, is not so irksome as half a century ago. Under our Government, where the Federation and States are required to raise revenues for their separate units, a vital question arises just how far each can go without interfering with the other. In war times more liberal forms of taxation are permissible than in normal ones.

The present maximum inheritance tax of 40% frequently confiscate the decedent's estate, and it is al-

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Con—continued

HON. CORDELL HULL

U. S. Representative, Tennessee, Democrat

ESTATE or inheritance taxes are the cheapest and easiest of collection and have been in operation in most civilized countries without objection since the days of Egypt and Rome. The states, and the Federal Government as to that, have many different tax methods which are most inequitable and grinding in their effects. The general property tax system is an illustration as to the states. I strongly believe that the states, if they will, or in any event some governmental agency, should raise not less than $300,000,000 annually from estate taxation and substitute for a like amount of existing tax methods far more vicious and oppressive. England in proportion to wealth raises three times the corresponding amount from this tax that is at present realized by both our states and Federal Government.

Personally I earnestly favor the development of this tax, to the extent just outlined, by the states. To do this they must have uniformity to prevent bidding against each other for capital and immigration, and they must also have uniformity for the purpose of avoiding duplicate, triplicate and quadruple taxation. There are many instances in which the Federal Government needs the cooperation of the states in the administration of given laws, and vice versa. It seems to me that for a brief period the states are in real need of Federal cooperation for the purposes of uniformity, as already stated, and until a suitable and comprehensive estate or inheritance tax law, somewhat uniform to all the states, can be developed and placed in operation in the different states. I shall then be among the first to vote to repeal the Federal law. Many who have requested Congress to repeal the law outright are opposed to all inheritance or estate taxation, while some others have made this request upon the ground of states rights without intending to develop the tax save to a very moderate extent. I strongly believe in the states rights idea, but believing in the tax as I also do, it must follow that the return of this tax to the states would presuppose its full development by the states.

Following the enactment of the Federal estate tax in 1916, influences from the states brought further pressure upon Congress to take over other state activities and state agencies and perform them. Following highway legislation came health legislation; agricultural extension legislation; federal aid to agricultural colleges in the states; and federal aid in a dozen other respects. That class of legislation, which naturally came up to Congress on account of delay or neglect on the part of the states, has now resulted in Federal expenditures for last year of $144,000,000, for purely state agencies and state activities. During the past eight years the Government has derived, I believe, about $750,000,000 from the estate tax system. On the other hand, it has paid out $570,000,000 for the purpose of meeting these state activities which it has taken over.

If the states, on account of the difficulty of teamwork or lack of uniformity are not willing first to demonstrate their ability to devise a suitable working system that will secure revenue, then we would simply be throwing it away in large part if the Federal Government abandons it, before the states have put their houses in order and prepared themselves to handle it to the full revenue-producing point.

Should Collection of Federal Death Duties Be Discontinued

Pro

HON. GARRARD B. WINSTON
Under Secretary of the Treasury

THE history of death taxes with the Federal Government is short. We have occupied this field of taxation four times in our history; and each time until the present we have relinquished the field to the States when the particular emergency for which additional taxation was required had passed.

In the early days of the Republic, to obtain money with which to pay in part for the Revolutionary War, a stamp duty was imposed on legacies or for any share of personal estate received on death. This tax was paid by the beneficiary, and amounted roughly to .2 of 1%. The Act was passed in 1797 and repealed five years later in 1802. The yield to the Government from this tax cannot be separated from the revenue from the sale of stamps for all purposes, which averaged about $250,000 a year.

During the Civil War, Congress imposed a very moderate inheritance tax. The act was passed in 1862 and repealed in 1870. Its average yield was about $1,500,000 a year.

During the Spanish War a tax was levied on the transfer of personal property by death, at rates which in the cases of direct heirs reached a maximum of 2¼%. The law was passed in 1898 and repealed in 1902, and subsequently certain taxes collected under it on charitable bequests were refunded. The greatest amount of revenue derived in any one year from this tax was something over $5,000,000.

The estate tax was resorted to in 1916, when the maximum rate imposed was 10%. In March, 1917, this rate was increased to 15%, and in October of that year to 25%. In the Revenue Act of 1924 it is raised to 40% with a credit for state taxes. The revenue received from this tax has been as follows:

1917	$ 6,000,000	1921	154,000,000
1918	47,000,000	1922	139,000,000
1919	82,000,000	1923	126,000,000
1920	103,000,000	1924	102,000,000

It is estimated that in 1925 the revenue from this source will be $114,000,000, an increase of $12,000,000 over the previous year.

The dynamic or moving effect of high taxes is not so immediate in its results as the actual depletion of capital and lessening of capital values. It is nevertheless of great importance in the establishment of a permanent policy. After man has become sufficiently civilized to provide for the reasonable requirements of living, the impetus to further effort at production is found largely in the desire to leave one's family well provided for. So long as the individual feels that he can pay the tax and still leave an estate to his family, he will increase his efforts; but, if he finds that by reason of excessive taxation the results are not commensurate with the effort, he will probably cut down his production and the general wealth of the country will be diminshed accordingly. We will have more golf players and fewer Henry Fords and Thomas Edisons. A man will not seek to build up a large fortune just to have it taken away from his family at his death.

I am not discussing this question from a social point

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Con

DANIEL C. ROPER
Former Commissioner of Internal Revenue

PUBLIC comments on recent court decisions in general indicate a surprising misunderstanding of the present Federal estate tax law as to the fundamental purpose of its passage and its retention in our taxing system. It is generally alleged that this method of assessing and collecting revenue was invoked as a mere temporary expediency for war purposes and that Congress never intended that it should remain upon the statute books as a continuing method of raising revenue. There is no foundation for this allegation.

The amount which the Federal estate tax yields in money is not large enough to make it of very great value as a temporary expedient in time of war.

At the time of the enactment of the September 8, 1916, statute, the modern Federal Tax Law, the United States was not at war and in my opinion the several amended reenactments of that law have never been regarded by Congress as essentially emergency tax measures. On the contrary, it has been found highly necessary to discover methods of acquiring permanent revenue which would not impose too great a burden upon any.

For one thing, in 1919 there had to be found some method of taxation to fill the gap created by the passage of the Eighteenth Amendment and the anticipated loss in revenue from the tax upon alcoholic liquors. This fact was in the mind of Congress when it retained this inheritance tax upon the statute books.

Death duties in England have so long been an integral part of their tax system and have proven upon the whole so acceptable, as compared with the other forms of taxation, that no Englishman now questions the retention of them as a permanent part of the English system.

But revenue alone is not the sole reason for the enactment of the Federal death duty. There have been in this country for many years warm adherents of the belief that something must be done to discourage rapid growing fortunes, that some limit must be placed upon the possibility of a few individuals acquiring so much money that the Government itself is menaced by the power it brings them.

Furthermore, death duties go far toward creating an offset against non-taxable investments of the creators of such estates. They, therefore, seem to return to the Government only a deferred payment and to supply a part of the vital income required for its support. As a happy medium between confiscatory legislation on the one hand and the uninterrupted and unrestricted right to accumulate millions on the other, death duties constitute an ideal compromise.

There is no special importance in the rate, but it should not be too high. Personally, I believe that a maximum tax of 25 per cent in the highest bracket is ample, but the last Congress in passing the Act of 1924 took the view that 40 per cent, was not unreasonable. Most of us are willing to defer to the wisdom of Congress in this matter since very few need have any anxiety about the tax in its maximum as applied to their own fortunes which must be transferred at the time of death.

As a matter of fact, the several States in enacting

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HON. GARRARD B. WINSTON—continued

of view, but from the Government revenue standpoint. I understand death taxes are imposed to raise cash. If the United States Treasury and the State treasuries want something which will realize revenue, much more can be obtained from one large estate than from several smaller ones with an equal aggregate value. An estate of $10,000,000 net yields $2,561,000 Federal estate tax, while 100 estates of $100,000 each yield an aggregate tax of only $150,000. It would take over 1700 estates of $100,000 each, aggregating over $170,000,000, to produce the same amount of revenue as one $10,000,000 estate. It is, therefore, essential that large fortunes continue to be made and be not taxed out of existence. So, if we are to have an accumulation of capital upon which to levy death duties, we must encourage, not discourage, its creation. Under socialism death taxes would be barren.—Extracts, see 14, p. 359.

DAVID E. FINLEY

Member of the War Loan Staff of the Treasury

UNDER our dual form of Government, there has grown up in this country a curiously complicated and haphazard system of taxes, with the result that double taxation obtains in the United States to a greater extent perhaps than anywhere else in the world.

The present situation is a striking example of the lengths to which competing jurisdictions will go in the effort to extract the last dollar from resident and nonresident taxpayers in the form of death taxes. No attempt is made at reciprocity between the States, nor is any effort made to levy taxes according to some uniform principle. On the contrary, many States use both the situs of the property and the domicile of the decedent as the basis of liability to taxation. The result is that estates with widely scattered assets are frequently subjected to overlapping and confiscatory taxes, thus bringing about a depletion of capital which must ultimately have a serious effect on the country's development.

It is possible for estates, under some circumstances, to be taxed more than one hundred per cent of their value. This, of course, does not often happen; but under our present laws it is entirely possible, and when it does happen, we have not taxation but confiscation. Such a situation, deplorable as it is, has grown up largely as a result of accident or legislative indifference, rather than deliberate intention to use taxation as a club to punish or discourage the accumulation of wealth. But it is well to remember that death taxes, after all, are merely a form of capital levy; and when they reach the point of confiscation, they have become a fine or penalty, not a tax. Regardless of the soundness of such taxes as levied in moderation by the States or by the Federal Government when necessity may require, it would seem unwise to defray the current expenses of the National Government out of excessive levies on capital when there is no pressing need for the revenue derived from such sources.

As a source of revenue, death taxes are not of very great importance to the Federal Treasury; and, under the high rates now imposed, they are becoming less and less productive of revenue. Under the twenty-five per cent maximum rate, the revenue derived by the Federal Government has steadily dropped from $154,000,000

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DANIEL C. ROPER—continued

inheritance tax laws may have placed undue burdens upon estates of decedents, and it is upon this weak aspect of the matter that the enemies of all death duties direct their attack. However, their criticisms are largely theoretical and while the States, with a few notable exceptions, tax their citizens by way of death duties, no estate has actually had to suffer the extreme oppression that those who discuss these laws find possible if not imminent. The relatively small amounts collected by these taxing laws are themselves an answer to the charge that they are confiscatory.

There is another angle to the question of death duties that is not generally understood. Assume an estate of $10,000,000—dealing only in round numbers. Such an estate should yield an annual income, let us say of $600,000, which is subjected to income tax annually of $200,000. At death the deceased person's estate of $10,000,000 becomes subject to a death duty under the Federal law of approximately $3,500,000. Upon a showing to the Commissioner of Internal Revenue that it would constitute an undue hardship to pay this sum at one time, an extension of time for payment of the tax can be secured, under the existing law, which would permit the payment over a three-year period of approximately $1,150,000 each year. The amount paid for estate tax is deductible from income tax for the year in which it is paid, so that for the three-year period over which the estate tax is being paid, all income taxes due from the estate are wiped out and the net revenue to the Government at the end of the term during which the estate tax is being paid is the difference between the total estate tax and the amount of income tax which would have been paid over the three-year period, reducing, in the supposition before us, the net tax paid by the estate by some $600,000. Thus, while the progressive brackets increase the tax, they also increase the deduction from income tax, thereby equalizing in a measure the net tax.

If the Federal Government repeal its death duties, it is inevitable that the States will levy such taxes without uniformity and that some of the States, for example, Florida, which has forbidden death duties by amendment to its Constitution, will never exact such taxes. Then we would have a condition in which a wealthy citizen of Illinois, let us say, whose millions may have been acquired in international trade, could, by establishing a residence in Florida, cause his estate at his death to escape death duties almost entirely; while the citizen of smaller fortune, who could not change his residence at will, might find himself bound to a residence where death duties are onerous, with no escape from heavy taxes upon his fortune at his death. Great wealth is seldom, if ever, local in its source and development, and if it is to be taxed by way of death duties, should it not be taxed for the benefit of the National Government?

It is not likely that a satisfactory agreement could be worked out between the State and Federal Governments that would permit the Federal Government exclusively to collect the inheritance taxes and return to the States an agreed proportion. Nor is it likely that the States will agree to surrender entirely this field of taxation to the Federal Government. It is more likely that any excess burden which may exist because of collections by the two Governments could be relieved by the Federal Government reducing its rate to a point where a reasonable

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Economists Discuss Federal Estate Tax Repeal

Pro

CHARLES J. BULLOCK
Professor of Economics, Harvard University

A GENERATION ago the taxation of estates and inheritances was supposed to involve few theoretical or practical difficulties. I shall begin with the complacent assumptions that inheritance and estate taxes are easy to administer, inexpensive to collect, burdenless in their operation, and non-repressive in their economic effects, which naturally lead to the conclusion that such taxes are among the most eligible forms of public revenue.

This is not a centralized, but a Federal Government. Property is held, and at death passes, under the laws of the several states. No comparison is admissible between the United States and other countries that have a centralized government and a single system of probate law. Account must also be taken of our vast area, which makes it inconvenient to have the settlement of estates await upon the pleasure of Washington, and of our vast population, which, if it is to do business at the seat of government, can be handled only by a vast, impersonal, bureaucratic machine. Let us not delude ourselves with the idea that any law will be easy of administration which makes the settlement of estates dependent upon a valuation made in Washington.

In so far as the administration of estate or inheritance taxes falls to jurisdictions other than those under whose law the property passes, administrative difficulties multiply and the taxes being to lose the virtue commonly predicted of them.

It is still true that estate and inheritance taxes may be so imposed as to make them comparatively easy of administration; but it is not true that they are so imposed in the United States at the present time. Today, in actual practice, succession taxes may be, and frequently are, among the most difficult taxes ever devised by law-givers.

That succession taxes are inexpensive to collect is another out-worn tradition of earlier and happier days, which requires similar modification. The accounts of our taxing departments, at Washington and elsewhere, do not show the whole cost of collecting taxes. So far as I am able to determine, they show nothing but expenses specifically allocated to the tax departments, and omit all consideration of overhead which is not an insignificant item.

To the taxpayer the cost of collection consists of the amount of money taken out of decedents' estates in excess of the tax as finally determined; and it may be divided into two forms, the direct and the indirect, or incidental, cost. Concerning the direct cost we have no comprehensive statistics. For large estates I am willing to hazard the guess that the cost of making the necessary returns, securing the necessary waivers, determining the necessary valuations, and finally settling the various taxes is approximately as large as the cost to the government or governments concerned. The indirect, or incidental, costs of succession taxes are in most cases incapable of measurement; but they are sometimes much greater than the direct.

The difficulty of securing the funds needed to pay the very large sums now exacted by the Federal and the

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Con

THOMAS S. ADAMS
Professor of Political Economy, Yale University

A LARGE part of the force behind the proposal to abolish the Federal estate tax proceeds from those who believe that this form of taxation is fundamentally vicious and unsound. Such persons desire to see the Federal estate tax abolished in order that state death taxes may be whittled down by interstate competition. They expect Florida, Alabama, and the District of Columbia, by offering isles of refuge to the retired rich, to discredit the state inheritance tax in the long run, or to hold it within very narrow limits. As a friend of the tax, I do not share this view. I want the rates moderate but the yield large.

What actually do the American people wish to do with the death duty—to strike an ineffective blow at accumulated wealth, blindly indifferent how it is to be divided and whether it was accumulated by the methods of a George Washington or by the methods of a financial buccaneer; or—as I read their purpose—to tax the special ability represented by a large inheritance of unearned wealth in order, in some degree, to untax earned wealth? Is it their purpose to exercise a blind hatred, or an intelligent choice between necessary evils? I cannot but believe that the latter is their true purpose.

If what I have said is sound, there follows a strong practical case for the conversion of the Federal estate tax into an inheritance tax. The progressive rates of the Federal tax should be adjusted to the size of the shares. A man may die, leaving $10,000,000; but if he divides that into one thousand shares of $10,000 each, there is no reason to levy a 30 or 40% tax on the entire estate.

This proposed modification in the Federal estate tax would materially reduce the burden of the Federal tax.

The upper rates of the Federal tax are now, in my opinion, far too high. Excessive tax rates are bad for the reason that excessive eating, and excessive working are bad. They represent the same fault or mistake which appears in "pressing" at golf. Excessive effort kills distance and destroys accuracy. I know no way of "proving" the prediction, but I am confident that within fifteen years we should get more money from a Federal estate tax having a maximum rate of 20% than from one having a maximum rate of 40%.

I am not in favor of attempting to repeal the Federal estate tax. First, because it would not stay repealed. Secondly, the states will not, without some real inducement, abolish multiple taxation. On the question of eliminating double taxation by argument and persuasion, I am a pessimist. Finally, I do not believe in leaving this source entirely to the states because, by themselves, they cannot realize its legitimate possibilities.

If the Federal estate tax can in any practical way be used to reduce the burden of the property tax, such use and not repeal is the part of wisdom.

The present credit authorized in the estate tax, with respect to state inheritance or death duties actually paid, is limited to 25% of the Federal tax. That limit, in my opinion, should be removed after the form of the

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FRED R. FAIRCHILD
Professor of Political Economy, Yale University

AT THE present time the United States and 46 of the 48 States impose inheritance taxes of some sort. There is great variety among these laws, and some of them impose burdens of real severity. What makes the condition intolerable is the application of two or more separate taxes to the same estate or bequest, with resulting duplications and complications which can hardly be exaggerated. The matter is made still worse by the vicious discriminatory and retaliatory provisions of many of the State laws.

To those who are seeking measures for relieving the present intolerable situation in the taxation of inheritance, it occurs at once that the withdrawal of the Federal government from the field would help greatly. The sacrifice to the Federal government would not be extreme.

The inheritance tax has never become established as a part of the normal revenue system of the United States government. Its present yield is large, more than $100,000,000 in each of the past five years, but that is only about 3 per cent of the total ordinary receipts of the government. In each of these five years, with the single exception of 1921, the government has had a surplus in excess of the yield of the estate tax. Evidently the Federal government is not dependent upon the inheritance tax, at least in time of peace.

With the States it is different. The inheritance tax has become an important part of their tax systems.

The States are certain to develop still further their inheritance tax laws and to increase their dependence upon them. The States have a prior right in this field and they would be greatly helped by the withdrawal of the Federal government.

The common notion that the inheritance tax is a good resource for war emergency is an error. The inheritance tax has, as a matter of fact, never rendered any great aid to the government in time of war. Its yield, during the Civil War and the Spanish War, never amounted to 1 per cent of the total ordinary revenues of the government. Even during the World War the best it did was to contribute 3.6 per cent in one year. On the side of justice the inheritance tax is about the worst possible form of emergency tax. Any given citizen is likely to be subjected to the burden of the inheritance tax only a few times during his life. What could be more unjust than to impose a heavy tax upon A, who happens to inherit a bequest during the emergency, while B, who inherited just before, and C, whose bequest was received just after, the war, pay nothing? This is making contribution toward war cost depend on pure chance. The Federal government should be urged frankly to give up the inheritance tax for good and all, in war time as well as in peace.

The withdrawal of the United States government would be a great help. But let no one suppose that this alone would solve the problem. The mere withdrawal of the Federal government would relieve somewhat, for the time being, the burden of inheritance tax payments. But it is quite possible that the States, relieved thus of pressure from above, might soon so increase their own exactions as to make the tax burden just as heavy as before. And, in any case, there would remain all the duplications and complexities of the several State laws, which are the most serious part of the problem.—Exts. see 11, p. 359.

Con—continued

ERNEST MINOR PATTERSON
Professor, Wharton School of Finance, University of Pennsylvania

THE basic arguments for heavy inheritance taxes are so convincing even to individualists and to those with a strong laissez faire outlook that they are here to stay. To all appearances they are a permanent part of the tax systems of all leading countries and there is no sign of their abandonment. Such minor reactions against them as one finds say in Florida or (to look abroad) in Italy are minor and probably temporary.

Some of the arguments against the use of this tax by the Federal Government are based upon misconceptions that need to be cleared up. One of these views is that such a tax is objectionable because it is a tax on capital. This argument is one that applies to all inheritance or estate taxes.

The mere fact that the basis of a tax is on property or capital does not condemn it. If it did we must at once abolish the most wide-spread tax we have—the property tax. At any rate we would disapprove it in every case where the property taxed does not yield an income.

There is nothing inherently objectionable in a tax that is levied on capital. There is a loss (either of capital or of income) to any individual who is taxed, but that is very different from the contention that the community is the loser. It all depends on the use made by the government of the funds collected. If the tax receipts are used for productive purposes there is of course no community loss.

Many fear that existing taxes will compel the breaking up of many large business enterprises to an extent harmful to the country, a frequently used illustration being the existing Ford fortune. The argument is a two-fold one: First, initiative and enterprise and thrift will be discouraged; second, properties sold to pay taxes on the estate will come into the hands of those who will administer them less successfully than would the children or other heirs of the decedent. A glance at the growth of large fortunes and the increase of large incomes in the United States should be reassuring on the first point. Fortunes are being accumulated and millionaires multiply even in the face of the dreaded taxes.

All these criticisms are, however, against inheritance and estate taxation in general. Many who do not object to the principle of heavy progressive taxes in this field sincerely doubt the propriety of an estate tax by the Federal Government.

That the states have need for the revenue from death duties may readily be conceded and must not be overlooked but it does not follow that we should have a complete separation of sources secured by the entire withdrawal of the Federal Government. This is not done in the case of the income tax since many states as well as the Federal Government use this source.

Death duties can be most satisfactorily handled with the Federal Government cooperating. Along with the income taxes they are the most democratic way of securing government revenue, the best application of the faculty theory. Rates now existing need not be lowered, but much can be done to eliminate existing discriminations and perhaps occasional cases of unduly heavy combined rates. This can be done best, however, with the Federal Government as the leader.—Extracts, see 5, p. 359.

National Associations Discuss Federal Estate Tax Repeal

Pro

AMERICAN BANKERS ASSOCIATION

Statement by F. W. Denio, Vice President, Old Colony Trust Co., Boston

THE American Bankers Association welcomes the opportunity to record its opinion in favor of the repeal of the Federal estate tax and the Federal gift tax. A special committee of the Bankers Association has been studying this subject for over a year and has rendered a comprehensive report favoring the repeal of these two Federal taxes. This report was made the basis of an appropriate resolution at the recent national convention in Atlantic City.

In their capacity as executor and trustee of many thousands of estates, and in their relationship as banker to their depositors and other clients, banks have an unusual opportunity for observing the operation of the law and becoming acquainted with the point of view of a large number of people who are thinking about these problems.

The present Federal estate tax represents a real tax on capital, and such a tax is necessarily unsound and unscientific, because it tends to defeat itself as a revenue producer. We submit that the revenue-producing ability of a tax is the only basis for its enactment or retention by the Federal Government. In addition it can not be questioned but that such a tax destroys initiative.

A man who is devoting his energies to create an estate which will be liquid enough to sustain the enormous burden of such a tax upon his death can not use his wealth in the development of new industries. We feel this tax is unsound for the same reason we would feel that a business man who borrows from us in a crisis would use poor judgment if, after the crisis passed and his earnings were satisfactory, he sold a productive part of his plant and reduced his earning power. In other words, he is selling his seed corn for cash.

The Federal estate tax yielded for the fiscal year ending June 30, 1925, $101,000,000, which represents about 2½ per cent of the Federal revenues, those revenues amounting to about $4,000,000,000. The lowest estimate that has been placed upon the surplus is $250,000,000. It is evident therefore, that the reduction of revenue involved is well within the surplus and the elimination of the tax will still leave a substantial margin to be applied in reducing taxation from other sources.

As in the three previous instances when an estate tax has been made a part of the Federal revenue program, the need for the tax arose from a war. In fact, the 1917 amendment to the law was specifically labeled "war estate tax," showing that in the minds of Congress it was at least linked up with that emergency.

We submit that the test of whether the emergency is passed is whether the added field of income taxation is sufficient in addition to the other ordinary revenues of the Federal Government to provide for its financial requirements.

If the income tax is adequate for meeting the financial needs, then additional forms of taxation are expensive to administer to the extent that they cost anything, because it is all unnecessary expense. The estate-tax division must function independently of the income-tax di-

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Con

AMERICAN FARM BUREAU FEDERATION

Statement by John S. Mooring

IT IS the contention of the American Farm Bureau: (1). That, under the combined tax systems of the states, their local government units and of the Federal Government, the farmer is bearing more than his fair share of the public burden; (2). That the abandonment of the estate tax, which falls more lightly on the farmer than on other industrial classes, would relatively increase the farmer's burden; (3). That the inheritance or estate tax is in itself just, is a legitimate source of revenue and should be preserved at its highest degree of usefulness; (4). That it can be so preserved only through the aid of the Federal Government; and (5). That, therefore, the Federal estate tax should not be repealed. We do not believe it will be questioned by any one acquainted with the facts of taxation that, including all taxes and if ability to pay tax is measured in terms of income, the farming class is more heavily taxed than any other. The farmer pays but a small part of the revenue derived from the inheritance or estate tax. To the extent that the revenue from this tax serves to meet a part of the cost of government the farmer is relieved. To abandon this tax would be to increase his relative tax burden and it would seem that he has the right, as a matter of common justice, to ask that it be retained, provided it is in itself just and a legitimate source of public revenue.

Strictly speaking the inheritance tax is an income tax. For practical reasons only it is not included in the Federal income tax law, but is provided for by a separate statute. But this fact does not alter the character of the tax. Moreover, it is not only an income tax—universally admitted to be the fairest of all taxes—but it is a tax generally on unearned income. Another justification of the inheritance tax is that in the larger estates generally it reaches property which has not contributed its fair share of tax during the lifetime of the decedent. The inheritance tax is further recommended by the fact that at the higher rates applicable to large estates it tends to redistribute wealth.

It is undoubtedly true that the inheritance tax is primarily a state tax and justly belongs to the states. The Federal Government's only claim to a revenue from this tax in peace times arises from the fact that the growth of large fortunes is due to the entire American public. In discussing the growth of large fortunes, Mr. Carnegie said: "Now who made that growth? The American public—that is where that wealth came from and that is the partner in every large enterprise where money is made honorably; it is the people of the United States." This ground furnishes sufficient moral support for a Federal tax, but the weight of authority is to the effect that the states have a superior claim to the revenue derivable from this form of taxation. Furthermore, the states have the greater need for this revenue and can make the best use of it, for it is only by the states that the proceeds of the tax can be directly used to reduce property taxes or to keep them from going higher. But can the states alone preserve this tax at a high degree of usefulness; can they, in fact, preserve it at all as a per-

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AMERICAN BANKERS ASSOCIATION—continued

vision. If the revenue from the estate tax is not necessary, then any expense for administering it is unnecessary expense. In the case of this Federal tax the work is necessarily centralized in Washington. This entails extra expense to the beneficiaries of the estate in settling disputed questions, and there is no form of taxation which is more disputed than an estate tax involving, as it does, valuations of property. The burden of the tax to the taxpayer is much greater than the specified rates applied to the ultimate valuation.—Extracts, see 6, p. 359.

NATIONAL CONFERENCE ON ESTATE AND INHERITANCE TAXATION

From Report Adopted at New Orleans, La., Nov. 10, 1925

ALTHOUGH a Federal inheritance-tax law was passed as early as 1797, the Federal Government has resorted to this method of raising revenue only under pressure of emergency caused by war, and heretofore the taxes have been repealed as soon as the pressure was removed.

This field, therefore, in the past has been left, except in war emergencies, entirely to the states and the present encroachment by the Federal Government seriously affects state revenues. The Federal Government is better able to give up this object of taxation than are the states.

State and local expenditures have been rapidly increasing, and in view of the educational, road building and other developmental activities in the various states there is every reason to expect a continued increase. The states, therefore, need every available source of revenue. Although it is true that some of the states do not collect substantial sums from inheritance taxes and could abolish their levies without material loss, yet in other states, particularly those which require the largest amount of revenue, inheritance taxes constitute an important and necessary source of revenue and the abolition of the tax would necessitate a readjustment of the entire tax system. For example: In 1922 inheritance taxes constituted 14% of the state revenue from all taxes in the State of Rhode Island; 13% in Massachusetts; 13% in Pennsylvania; 11% in New York; 11% in Connecticut; 11% in California; 10% in New Jersey; 7% in North Dakota, and 7% in North Carolina.

Moreover, many difficulties have arisen in the administration of the Federal tax, particularly in connection with the valuation of estates, which do not lend themselves easily to solution by reason of physical difficulties involved in the imposition of the tax. The Federal law permits the Federal Government five years from the date of filing the return within which to make an additional assessment upon an estate and six years additional within which to enforce payment of the tax. Under this provision uncertainty in regard to final payment of the tax may be prolonged for eleven years. This fact may work severe hardships which seldom, if ever, occur under state administration.

Although the committee, has reached the unanimous conclusion that the Federal estate tax should be repealed and that legislation providing for such a repeal should be enacted at the next session of Congress so as definitely to settle this important question, it is constrained to conclude, in view of the circumstances surrounding the pres-

Continued on next page

Con—continued

AMERICAN FARM BUREAU FEDERATION—continued

manent source of revenue? The most careful investigation of the subject compels a negative answer to this question.

Various plans have been suggested by which the inheritance tax may be saved to the states. There is only one which seems entirely practical. The present credit authorized in the Federal law with respect to state taxes paid is limited to 25% of the Federal tax. We think this limit should be increased to not less than 75% and it might be wise, if there is no legal objection, that the credit be conditioned on the employment by each state of a single jurisdictional basis. Either this plan or some similar one must be adopted if the estate or inheritance tax is to remain an important source of revenue. In our judgment it will be discredited and ultimately destroyed by an unconditional repeal of the Federal law.—Extracts, see 6, p. 359.

NATIONAL GRANGE

THE National Grange's stand on the inheritance tax as a source of Federal revenue was briefly stated in a letter written by Dr. T. C. Atkeson, Washington Representative of the National Grange to Hon. W. R. Green, Chairman of the House Ways and Means Committee on November 3, 1925 as follows:

"The Grange has supported the principle of the graduated Federal inheritance tax, believing it to be one of the forms of taxation which helps equalize inequalities inevitable in certain other fundamental taxes."

This statement is based upon a survey of the action which has been taken in the National Grange on the subject of Federal taxation at many of its meetings covering a long period of years, out of which there has grown up a historical precedent which epitomizes the view held by agricultural people generally on the subject of Federal taxation. This finds a most explicit statement in the general recommendations of the Committee on Taxation at the annual session of the National Grange held at Boston, Mass., in 1920 when the whole subject of the Federal tax policy of the Grange was studied and formulated in one of the most complete reports which the National Grange has ever had before it on this subject. After enunciating the need for public economy, equality in taxation, reduction of all exemptions to the minimum and general principles as to state and local taxation, the following specific recommendation was adopted:

"Recommendation No. 10. For state and national purposes we favor an adequate and equitable system of income and inheritance taxes as a source of permanent income."

Following this the Grange endorsed "excess profit, luxury and excise taxes as a just and equitable method of meeting unusual government expenses."

In the records of more recent Grange meetings frequent approval of the principle thus enunciated is found.

Underlying the position which the Grange has taken with respect to the income and inheritance tax is the knowledge which is a matter of first-hand experience on the part of every member of this great organization, representing the people engaged in American agriculture, concisely stated in the following paragraph from the

Continued on next page

Pro—continued

National Conference on Estate and Inheritance Taxation—continued

ent inheritance-tax situation in the states, that the repealing act should not become effective until at the expiration of six years from its passage.

Several movements recently inaugurated designed to accomplish uniformity among the states are just beginning to show results. By the retention of the Federal tax for a period of six years and the adoption of changes in the present Federal law, the Federal statute may have the effect of promoting uniformity.

The Federal estate tax in amount cannot be regarded as oppressive on small estates; the exemption is liberal and the rates start low and progress moderately in the lower brackets. In fact, the incidental expenses of administering the tax may easily be a greater burden upon small estates than the tax itself.

The present Federal rates in the higher brackets are so excessive as to retard social and economic development and to stimulate avoidance and evasion and legislation should be enacted immediately reducing them to a reasonable basis.—Extracts, see 4, p. 359.

Hon. Duncan U. Fletcher—cont'd from p. 341

That the States, other than Florida and Alabama, should attempt to force upon the people of those States a local domestic tax which they, in the exercise of sovereign rights have determined they do not approve and will not have, is a most astounding proposition.

Florida has the right to refuse to impose any inheritance or income tax on her citizens. No other state, not all the remainder, can compel her to do otherwise and they ought not to attempt it. To use the assumed power of the Federal Government to that end is unjust, oppressive and I do not believe it will be sanctioned by Congress.

Hon. Henry W. Watson—cont'd from p. 343

ways a capital tax when the income is not sufficient to pay the taxes.

A Federal estate tax can also be supported with the view of breaking up large estates. We do not need a law for that intent, heirs are not slow in dissolving estates and trusts are not lasting. Trade is the only source from which revenues are collected. When a government levies a tax on a decedent's industrial estate so excessive that the heirs are forced to abandon it, it is a public policy contrary to true ethics of taxation. The Federal inheritance tax as written into the 1924 law has the symbol of socialism, as it tends to absorb capital, thereby leaves less money for trade and industrial expansion, consequently increases the number of unemployed. To paralyze the energy and intelligence required to accumulate large estates has been contrary to the American policy since the adoption of the Constitution.

I favor repealing the Federal Inheritance Tax, not only as a humane principle, but its annulment would increase the revenues for the Government. A uniformity of inheritance tax in the States would greatly cure the evil of taxes swallowing up large estates, which occurs so frequently.

Con—continued

National Grange—continued

report of the Committee on Taxation of the 1924 session held at Atlantic City; as follows:

"The Committee further feels that any program of tax reduction which Congress may undertake should be approached with the full knowledge that agriculture is bearing more than its share of taxation, and should receive its full measure of any contemplated relief."

The members of the Grange realize all to well that so far as possible every form of taxation is passed on as fully as possible to either the producer or the ultimate consumer. The inheritance tax fairly and equitably devised and applied is one form of taxation that rests where it is placed. It is paid by those amply able to pay.

Hon. George W. Norris—cont'd from p. 340

if one is to inherit an estate of one hundred million, with which he had nothing to do in the accumulation, how can he complain if instead of giving him one hundred million, the Government under whose laws it was possible to build up such a fortune, takes one half of it, thus leaving him fifty million dollars, which he cannot possibly spend for any legitimate purpose during the longest lifetime known to history. It is more money than anybody ought to have, because it simply means that because of the accumulation of so much money in the hands of one man, there are thousands of others who do not have enough to make both ends meet.

Hon. William R. Green—cont'd from p. 342

the repeal of the Federal inheritance tax must inevitably be that the states would be unable to make any proper use of this tax and in any considerable degree to increase their revenues from it. Another potent reason why the Federal inheritance tax should not be abolished is that it furnishes the only practical means of reaching by taxation what are commonly called tax exempt bonds, which are exempt from the Federal income tax.

There is considerable complaint, not without justice, of the overlapping of the state and Federal taxes, but the evil is not so great in this respect as from the practice of many states in using their laws to tax the property of any non-resident decedent which they can, either directly or indirectly, reach. In this way some of the property of the decedent may be taxed several times over.

But there is a remedy for this situation. I propose that the full amount of the state tax be credited on the Federal tax up to 80 per cent thereof, if the latter exceeds the state tax, as it almost invariably does. In this way the estate tax would be uniform through the whole country and no one could evade it by moving from one state to another. This is as it should be, and is the only fair and just condition. Moreover, this will greatly reduce the total amount to be paid.

The inheritance tax has not only been approved by all economists, but by such distinguished public men as Roosevelt and Taft, together with prominent business men like Carnegie. The great manufacturer just named did not believe that the perpetuation of great fortunes was for the best interests of the country or of those who inherited them. Whether this be true or not, our tax system ought not to be so framed as to stimulate a tendency to concentrate wealth in the big estates.

Pro—continued

CHARLES J. BULLOCK—cont'd from p. 346

state succession taxes has proved, in some cases, the greatest evil of all. Even with the time which is allowed before payment is due, executors have been confronted with most serious problems when the principal assets, although valuable, were not of a liquid character. Money has been borrowed at high rates of interest, and property has been sold at a substantial sacrifice. Where a large proportion of the estate has consisted in the stock of a going concern, which could not be sold without affecting the control and conduct of the business, conditions have developed which may fairly be called desperate. It cannot be questioned that taxes as heavy as are now imposed upon many estates are necessarily paid out of principal, and therefore tend to reduce capital. This may be desirable, as the socialists and some others allege; but it necessarily leads to a revision of the theory that death taxes are non-repressive.

It is true that some people who are not socialists advocate heavy estate and inheritance taxes, as a means of reducing inequalities in the distribution of wealth; but it is also true that such persons are no more successful than the socialists in demonstrating that such taxes in the long run are financially profitable or economically sound. Nor can such a policy of fiscal spoliation be shown ever to have allayed social unrest. Succession taxes ought to be employed solely as a means of raising revenue and not as a means of regulating the distribution of wealth.—Extracts, see 2, p. 359.

DAVID E. FINLEY—cont'd from p. 345

in 1921 to $103,000,000 in 1924. In the latter year the amount raised by death taxes was only two and a half per cent of the total of $4,000,000,000 which the Federal Government received from all sources.

The States, on the other hand, when deprived of revenue which they might have obtained from this source, are forced to make up the loss by other taxes, particularly on farm lands. In many States, taxes are already so high as seriously to menace the prosperity of the farmer. The farmer nearly always pays a disproportionately large share of his earnings in taxes. He does not, as a rule, pay income taxes, so that this large part of his income which is absorbed by taxation represents almost wholly direct taxes on his property. If there is to be any decrease in the amount of revenue available to the State Governments from inheritance taxes as a result of the Federal law, it is obvious that the States must make up this loss by heavier taxes on tangible property.

State and local taxes are increasing at an alarming rate. They constitute by far the heaviest part of the tax burden which the American people are called upon to carry. In the decade from 1912 to 1922, the cost of State and local governments, as well as the expenditures of the Federal Government, mounted steadily; but the latter included the cost of financing our allies and carrying on the war, and since the war the National Government has made heroic and successful efforts at retrenchment. In 1920 the per capita Federal tax was $54; in 1923 this tax had been cut to $29; and in the current year to about $27. The per capita State and local tax, on the other hand, increased from about $31 in 1920 to about $41 in 1923, and the tendency is towards a further increase each year.—Extracts, see 7, p. 359.

Con—continued

EDWIN R. A. SELIGMAN
McVickar Professor of Political Economy, Columbia University

WE HAVE heard so much about the difficulties and the evils of the inheritance tax as to lead some to the conclusion that the only escape lies in the abolition of the tax itself. But while all suggestions for the abolition of taxation are welcome, it is, I fear, too late in the day to expect any such suggestion to prevail. The inheritance tax in modern society has come to stay. It is found in every democratic community and it is everywhere becoming of increasing fiscal and social importance.

[There are] two forms of the inheritance tax—the estate tax and the share tax. In England the death duties comprise both categories; with us as in Australia, the Federal Government levies one kind and the state governments another kind. But if, as I suggest, there should be primarily a single Federal inheritance tax, it ought surely to combine both elements. In England the social income is only about one-third of that of the United States, yet the proceeds of the inheritance tax are very much greater than in the United States. Were our tax as successfully administered as it is in Great Britain and with similar rates, the revenue would be some seven or eight hundred millions. The trouble with our Federal inheritance tax is not in the rates. We have a defective law. With an improved law, with the addition of a right kind of a gift tax, with the rendering impossible the evasion of the inheritance tax, through our absurd incorporation of individuals, and with a proper kind of administration, we should soon find that our revenues would be greatly augmented, even though the rates were diminished. With a revenue of several hundreds of millions, it would then be possible to hand over to the states a portion of the yield, whether it be 25% or 35%, with the result, not only that the Federal Government would get more than at present but that the states would secure as much as they now receive or could in future secure, through independent action.—Extracts, see 3, p. 359.

THOMAS S. ADAMS—cont'd from p. 346

Federal tax has been changed and its rates reduced as suggested above. Secondly, the Federal credit should not be granted to the taxpayers of any state which employed double or multiple taxation in its own death taxes.—Extracts, see 2, p. 359.

DANIEL C. ROPER—cont'd from p. 345

levy by the States would not be too great a burden. Furthermore, relief would be assisted and the element of duplication avoided by Congress allowing as a deduction in Federal tax returns as much as one-half of the amounts of estate taxes paid to the States.

One of the most common complaints against the inheritance tax is the need, under speed for collection, of sacrificing valuable assets of an estate and the injury or actual destruction of a valuable business. This situation was recognized by the Congress in constructing the present law when they increased the time limit to three years and this time could, without danger to the Government, be further increased, if found necessary.—Extract, see 7, p. 359.

The White House

EDITOR'S NOTE: In the October, 1925 number, THE CONGRESSIONAL DIGEST inaugurated a new department. This department will report each month the outstanding public matters which have had the attention of the President during the preceding month. Such public matters will include appointments made by the President, addresses delivered by the President, executive orders, and proclamations issued by the President, etc. In the January, 1924 number of THE CONGRESSIONAL DIGEST, the Hon. Wm. Tyler Page, Clerk of the House of Representatives, U. S. Congress, fully described the position of the Executive under the Constitution. The July-August, 1924 number of THE CONGRESSIONAL DIGEST was devoted to a detailed account of the early and present system of election of the President, together with an article on the Powers and Duties of the President under the Constitution.

The President's Calendar

For the Period October 30 to December 7, 1925

Nov. 3—The President received the Italian Debt Commission.

Nov. 11—The President and Mrs. Coolidge attended the Armistice Day observance at Arlington.

Nov. 12—The President received the Rumanian Debt Commission.

Nov. 19—The President and Mrs. Coolidge arrived in New York where the President delivered an address at annual banquet of the New York State Chamber of Commerce at the Waldorf-Astoria.

Dec. 5—It was announced that the President had replied to the letter from John L. Lewis, president of the United Mine Workers of America. The text of the letter was not made public.

Dec. 7—The President and Mrs. Coolidge arrived in Chicago where the President delivered an address at annual meeting of the American Farm Bureau Federation.

Addresses

Nov. 19—The President delivered an address at the one hundred and fifty-seventh annual banquet of the (New York) State Chamber of Commerce, at New York.

Dec. 7—The President delivered an address at the annual meeting of the American Farm Bureau Federation at Chicago.

Executive Appointments

Nov. 9—John Henry Walsh, of New Orleans, was appointed a member of the U. S. Shipping Board, succeeding Frederic I. Thompson who resigned from the Board Nov. 1. Mr. Walsh, who is a Democrat will represent the Gulf States on the Board.

Nov. 18—Charles D. Lawrence, New York, was appointed Assistant Attorney General.

Reports Made to the Presidents

Nov. 6—It was announced at the Department of Agriculture that the President's Agricultural Conference has been definitely dissolved. The announcement said that President Coolidge had acted upon the recommendations of Robert D. Carey of Wyoming, Chairman of the Conference, that no further sessions be called.

Nov. 14—H. G. Dalton, selected by the President, September 30th, to inquire as to the situation within the Shipping Board, submitted a report on the operations of the Shipping Board and the Emergency Fleet Corporation.

Nov. 14—The majority report of the Muscle Shoals Commission, appointed by the President last March pursuant to H. Res. 457, was submitted to the President. The report was signed by Mr. McKenzie, Repr., Ill., R., Chairman and Senator Dial, S. C., D., and R. F. Bower.

Nov. 28—A minority report of the Muscle Shoals Commission was filed with President Coolidge. The report was signed by Prof. Harry A. Curtis, of Yale, and William McClellan, of New York.

Dec. 2—Dwight W. Morrow, Chairman, The Air Inquiry Board, appointed by the President Sept. 12, 1925, submitted the report of the Board to the President.

The President's Recommendations to the 69th Congress—continued from p. 330

Mothers' Aid

Although more than 40 of our States have enacted measures in aid of motherhood, the District of Columbia is still without such a law. A carefully considered bill will be presented, which ought to have most thoughtful consideration in order that the Congress may adopt a measure which will be hereafter a model for all parts of the Union.

Civil Service

The time has come to consider classifying all postmasters, collectors of customs, collectors of internal revenue, and prohibition agents, by an act covering in those at present in office, except when otherwise provided by Executive order.

The necessary statistics are now being gathered to form the basis of a valuation of the civil service retirement fund. It is expected that this valuation will be completed in time to be made available to the Congress during the present session. We should have this information before creating further obligations for retirement annuities which will become liabilities to be met in the future from the money of the taxpayer.

The administration of the [classification act of 1923],

Continued on page 354

The Supreme Court of the United States

EDITOR'S NOTE: This department of THE CONGRESSIONAL DIGEST began with Vol. 3, No. 1, and is devoted to a brief non-technical review of current decisions of the U. S. Supreme Court which are of general public interest. The June, 1923, number of THE CONGRESSIONAL DIGEST printed the provisions of the Constitution of the United States upon which the Judicial Branch of our Federal Government rests. This number contained an account of the U. S. Supreme Court and the system of inferior federal courts, the relation of the Judicial Branch to the Legislative and Executive Branches of the Federal Government, and the relation between the Federal Judiciary and the States. The U. S. Supreme Court, its present procedure and work, were also described.

THE OCTOBER, 1925 TERM

October, 1925—June, 1926

Section 31 (b) of the Revenue Act of 1917

THE Case—No. 129 William H. Edwards, etc., Petitioner vs. Archibald Douglas et al., Executors of James Douglas. On Certiorari to the United States Circuit Court of Appeals for the Second Circuit.

The Decision—The Judgment of the Circuit Court of Appeals was reversed. The U. S. Supreme Court, by a 5 to 4 decision held as taxable under the provisions and rates of the 1917 tax law so-called "depletion" dividends aggregating $328,400, paid by the Phelps Dodge Corporation to the late James Douglas, of New York.

The Opinion—The opinion of the Court was delivered by Mr. Justice Brandeis, November 23, 1925, and is in part as follows:

Section 31 (b), added by § 1211 of the Revenue Act of 1917, c. 63, Title XII, 40 Stat. 300, 338 to the Revenue Act of 1916, provides:

"Any distribution made to the shareholders . . . of a corporation . . . in the year 1917, or subsequent tax years, shall be deemed to have been made from the most recently accumulated undivided profits or surplus, and shall constitute a part of the annual income of the distributee for the year in which received, and shall be taxed to the distributee at the rates prescribed by law for the years in which such profits or surplus were accumulated by the corporation, . . . but nothing herein shall be construed as taxing any earnings or profits accrued prior to March 1, 1913. . . . "

James Douglas received from Phelps Dodge Corporation in September and December, 1917, two dividends, called at the time "depletion dividends," aggregating $328,400. He, and later his estate, claimed that these dividends were not taxable because they were a return of capital, not income. The Commissioner of Internal Revenue insisted that they were taxable and assessed the tax at the 1917 rate. It amounted to $173,579.72. The estate paid the tax under protest, and brought, in the federal court for southern New York, this suit against the Collector to recover the full amount so paid. In addition, it was claimed that, if they were taxable at all, it was not at the 1917 rate, but at the rate for 1916.

The District Court concluded that the dividends were income and that they were taxable at the 1917 rate. It entered judgment for the Collector. 287 Fed. 919. This judgment was reversed by the Circuit Court of Appeals. This Court granted a writ of certiorari. 266 U. S. 596.

The sole question requiring decision is whether these dividends paid in 1917 shall be deemed to have been paid out of the earnings of that year or out of an accumulated surplus built up in 1916 and earlier years.

The Government contends that the phrase "most recently accumulated undivided profits or surplus" in § 31 (b) includes current earnings of the year in which the dividends are paid; and that, as the earnings of 1917 were ample to pay these dividends, the 1917 dividends are conclusively presumed to have been paid out of 1917 earnings.

The claim of the Douglas estate is that the current profits are not, within the meaning of the Act, the "most recently accumulated undivided profits or surplus," from which the distributions "shall be deemed to have been made;" and that what Congress intended was that a dividend should be deemed to have been paid from the most recent accumulation of profits which, before payment of the dividend, appeared on the books as having been added to the undivided profits or surplus account of a fiscal year.

To ascertain its meaning, [viz. § 31 (b)] we need only bear in mind the general character of the income tax, the specific practices of corporations concerning profits and dividends, the prior income-tax legislation to which § 31 (b) is an amendment, and the time of the latter's enactment.

Ordinarily, an income tax is laid upon all taxable income actually received during the tax-year and the tax is payable at the tax-rate of the year in which it is received, although none of the income may have been earned by the taxpayer during that year, or, where the income consists of dividends, although the corporation may not have earned in that year any part of the profits of which the dividend is a distribution.

It was apparently to obviate . . . inequalities that Congress provided by § 31 (b) for an objective consideration of the date when the corporation earned the profits, as well as the date when the taxpayer received his share of them in the form of dividend.

Congress did not use the words "surplus account" or "undivided profits account." Its language is "undivided profits or surplus." The word "surplus" is a term commonly employed in corporate finance and accounting to designate an account on corporate books. But this is not true of the words "undivided profits." The surplus account represents the net assets of a corporation in excess of all liabilities including its capital stock. This surplus may be "paid-in surplus," as where the stock is issued at a price above par. It may be "earned surplus," as where it was derived wholly from undistributed profits. Or it may, among other things, represent the increase in valuation of land or other assets made upon a revaluation of the company's fixed property. As used in § 31 (b) the term undoubtedly means that part of the surplus which was derived from profits which, at the close of earlier annual accounting periods, were carried into the surplus account as undistributed profits. On the other hand, the term "undivided profits" has not acquired in corporate finance and accounting a like fixed meaning. It is not known as designating generally in business an account on the corporation's books, as distinguished from profits actually earned but not yet distributed. Few business corporations establish an "undivided profits" account. By most corporations the term "undivided profits" is employed to describe profits which have neither been distributed as dividends nor carried to surplus account upon the closing of the books; that is, current undistributed earnings.

That this is the natural meaning of the term "undivided profits" is indicated by the action of both Douglas and his estate. That this is the meaning in which it was used by Congress is confirmed by the use of the expression "earnings and profits" later in the same paragraph; and, also, by the use of the term "undivided profits" in § 207. If it be accepted as the meaning in which Congress used the words, the course to be pursued under § 31 (b) becomes consistent with the general purpose evidenced by other parts of the Act. Its general aim was clearly to make the dividend, in whatever year paid, bear the tax rate of the year in which the profits of which it was a distribution had been earned; and for this purpose to treat as a unit the profits of the whole tax year. In providing measures for the attainment of that aim, it could be of no practical significance whether, at the time of the payment of the dividend, these profits

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Views of the Treasury on Tax Reduction—continued from p. 332

amount of tax paid is no true indication of the income of the individual. There are all kinds of losses and deductions. To make publicity complete, would expose every trade secret to the taxpayer's competitor. There is no excuse for the present publicity provision except the gratification of idle curiosity and the filling of newspaper space at the time the information is released.

There are several matters which had the consideration of your Committee when it was preparing the 1924 Act which I would like to bring before you again.

Tax-exempt Securities

There is no reason for the existence of tax-exempt securities. There ought to be no refuge to which the wealthy man can go and avoid income taxes at times when the Federal Government needs the money. A constitutional amendment to make these securities taxable should be passed. The delay, however, has been so long and the amount of securities now outstanding which would not be affected by the amendment has become so great—it is over $14,000,000,000 now—that the practical way of reaching the present situation seems to be by taking away the artificial advantage of these securities through the reduction of the surtax to a reasonable figure.

Earned Income

In the 1924 Act it was declared that all income under $5,000 was earned and no income in excess of $10,000 could be considered earned. This is a denial of what we all know are the facts. Many men do not earn the first $5,000 of their income and many others earn much more than $10,000. It is, of course, utterly unfair to tax a man whose capital is his brains at the same rate as a man whose capital is his money. We appreciate, however, the difficulty of a definition accurately to describe what income is earned and what not earned. Again if the surtaxes are placed at a normal figure this inequality in taxation is not so pronounced and may be ignored.

Board of Tax Appeals

The Board of Tax Appeals was intended to be a short cut to an impartial determination of tax liability. In the 1924 Revenue Act it was made an independent establishment, with quite formal rules of procedure. The Board has been extremely valuable in the establishment of precedents which have aided the Bureau in the determination of similar cases of other taxpayers. This appears to be their real function. It seems to the Treasury to be unwise to increase the jurisdiction of the Board. On the other hand, it is quite apparent that for a useful continuation of its existence a membership of at least 16 will have to have your consideration. The Board itself will present to you its detailed recommendations.—Extracts, see 3, p. 359.

The President's Recommendations to the 69th Congress—continued from p. 352

is in the hands of an impartial board, functioning without the necessity of a direct appropriation. It would be inadvisable at this time to place in other hands the administration of this act.

Federal Trade Commission

The proper function of the Federal Trade Commission is to supervise and correct those practices in commerce which are detrimental to fair competition. It was designed also to be a help to honest business. In my message to the Sixty-eighth Congress I recommended that changes in the procedure then existing be made. Since then the commission by its own action has reformed its rules, giving greater speed and economy in the disposal of its cases and full opportunity for those accused to be heard. These changes are improvements and, if necessary, provision should be made for their permanency.

Reorganization

No final action has yet been taken on the measure providing for the reorganization of the various departments. I therefore suggest that this measure, which will be of great benefit to the efficient and economical administration of the business of the Government, be brought forward and passed.

The Negro

Nearly one-tenth of our population consists of the Negro race. Our country has no more loyal citizens. But they do still need sympathy, kindness, and helpfulness. They need reassurance that the requirements of the Government and society to deal out to them even-handed justice will be met. They should be protected from all violence and supported in the peaceable enjoyment of the fruits of their labor. Those who do violence to them should be punished for their crimes. No other course of action is worthy of the American people.

Conclusion

In all your deliberations you should remember that the purpose of legislation is to translate principles into action. It is an effort to have our country be better by doing better. Legislation can provide opportunity. Whether it is taken advantage of or not depends upon the people themselves. The Government of the United States has been created by the people. It is solely responsible to them. It will be most successful if it is conducted solely for their benefit. All its efforts would be of little avail unless they brought more justice, more enlightenment, more happiness and prosperity into the home. This means an opportunity to observe religion, secure education, and earn a living under a reign of law and order. It is the growth and improvement of the material and spiritual life of the Nation. We shall not be able to gain these ends merely by our own action. If they come at all, it will be because we have been willing to work in harmony with the abiding purpose of a Divine Providence.—Extracts.

Recent Government Publications of General Interest

The following publications issued by various departments of the Government may be obtained from the Superintendent of Documents, Government Printing Office, Washington, D. C.

AGRICULTURE

Extension Work in Agricultural Engineering, 1923—by Guy Ervin. (Dept. of Agriculture, Circular No. 344.) Price, 5 cents. Drainage, prevention of erosion, farm buildings, farm-home conveniences, irrigation, land clearing, farm machinery, and teaching methods and results.

The Common Barberry and How to Kill It—by F. E. Kempton, and Noel F. Thompson. (Dept. of Agriculture, Circular No. 356.) Price, 5 cents.

Behavior of Cotton Planted at Different Dates in Weevil-Control Experiments in Texas and South Carolina—by W. W. Ballard, and D. M. Simpson. (Dept. of Agriculture, Bulletin No. 1320.) Price, 15 cents. Soil, climate and weevil conditions at San Antonio, Texas, at Charleston, S. C., and at Gainesville, Fla., etc.

Fitting, Showing, and Judging Hogs—by E. Z. Russell. (Dept. of Agriculture, Farmers' Bulletin No. 1455.) Price, 5 cents. Definitions of ages and classes, desirable weight for show animals, trimming feet and tusks, exercise, management at fair, etc.

Cotton Ginning, by G. S. Meloy. (Dept. of Agriculture, Farmers' Bulletin No. 1465.) Price, 5 cents. Separation of seed for planting, ginner's certificate for the farmer, usual ginning process, one and two story gins, principal parts of gin machinery, presses, tare and type of bales, gin compresses, plated bales, gin fires, careless preparation of the American bale, and publications of U. S. Dept. of Agriculture relating to cotton.

Centralized Management of a Large Corporate Estate Operated by Tenants in the Wheat Belt, by Walter H. Baumgartel. (Dept. of Agriculture Circular No. 351.) Price, 10 cents. Covers early history of the Amenia and Sharon Land Co., present organization and policies of the company, results of policies followed, subsequent changes in organization, and appendix.

Some Economic Aspects of Farm Ownership, by Charles L. Stewart. (Dept. of Agriculture Bulletin No. 1322.) Price, 5 cents. Purpose and scope of inquiry, long-time average conditions of ownership, trends in ownership conditions, anticipation of the future by owners, and adjustments in renting and purchasing farms.

Commercial Dehydration of Fruits and Vegetables, by P. F. Nichols, and others. (Dept. of Agriculture, Bulletin No. 1335.) Price, 10 cents. Preservation by dehydration, selection of material, preparation of material, traying, pretreatment, drying, curing, insects attacking dried fruits, packing and storing, detailed directions for drying, with bibliography.

Sugar-Cane Sirup Manufacture, by H. S. Paine and C. F. Walton, Jr. (Dept. of Agriculture, Bulletin No. 1370.) Price, 10 cents. Influence of cultural conditions on quality and yield of sirup, equipment and costs for making sirup on small scale, composition and food value of cane sirup, marketing cane sirup, etc.

Improved Oat Varieties for the Corn Belt, by L. C. Burnett, and others. (Dept. of Agriculture, Bulletin No. 1343.) Price, 10 cents. History and methods of oat experiments, Iowar, Iogren, yields of other varieties at the Iowa station, etc., with summary.

An Improved Type of Pressure Tester for the Determination of Fruit Maturity, by J. R. Magness, and George F. Taylor. (Dept. of Agriculture, Circular No. 350.) Price, 5 cents. The pressure test as a measure of maturity, description of the apparatus, details of manufacture, use of the pressure tester on apples, and range of pressures in apples as tested by this type of equipment, etc.

The Effect of Weather Upon the Change in Weight of a Colony of Bees During the Honey Flow, by Jas. I. Hambleton. (Dept. of Agriculture, Bulletin No. 1339.) Price, 10 cents. Methods of obtaining and presenting data, comparison of changes in weight of two colonies of bees, the spring and fall periods, correlations between external factors and the changes in colony weight, etc.

Strawberry Diseases, by Neil E. Stevens. (Dept. of Agriculture, Farmers' Bulletin No. 1458.) Price, 5 cents. Leaf diseases, diseases caused by nematodes, and fruit rots, etc.

Experiments in Rice Production in Southwestern Louisiana, by Charles E. Chambliss. (Dept. of Agriculture, Bulletin No. 1356.) Price, 10 cents. Natural factors affecting rice production, soils, topography, precipitation, temperature, cultural experiments, fertility experiments, irrigation experiments, rotation experiments, etc.

ANIMAL INDUSTRY

Directory of the Bureau of Animal Industry corrected to January 15, 1925. (Dept. of Agriculture.) Price, 10 cents. General organization of the bureau, stations of the bureau, meat-inspection establishments by numbers and stations, pathological laboratories, virus-serum control plants by license numbers and stations, etc.

International Trade in Meats and Animal Fats, by J. E. Wrenn. (Dept. of Commerce, Trade Promotion Series No. 26.) Price, 45 cents. Exports and imports of meat by countries, with summary and appendix.

BIRDS AND GAME

Directory of Officials and Organizations Concerned With the Protection of Birds and Game, 1925—by Talbott Denmead, and Frank L. Earnshaw. (Dept. of Agriculture, Circular No. 360.) Price, 5 cents. Federal State, and Canadian officials, National, State, and Canadian organizations, etc.

Food Habits of the Vireos, a Family of Insectivorous Birds, by Edward A. Chapin. (Dept. of Agriculture, Bulletin No. 1355.) Price, 10 cents. Covers economic relations, black-whiskered vireo, red-eyed vireo, and Philadelphia vireo, etc.

Homes for Birds—by E. R. Kalmbach, and W. L. McAtee. (Dept. of Agriculture, Farmers' Bulletin No. 1456.) Price, 5 cents. Use of nest boxes in the United States, housing bird enemies of insects, protection against enemies, etc.

Status of Pronghorned Antelope, 1922-1924—by Edward W. Nelson. (Dept. of Agriculture, Bulletin No. 1346.) Price, 15 cents. Characteristics of the American antelope, chosen habitat, and census of existing antelope, etc.

BLUE FOX FARMING

Blue-Fox Farming in Alaska, F. G. Ashbrook and E. P. Walker. (Dept. of Agriculture, Bulletin No. 1350.) Price, 10 cents. Selecting an island or ranch site, ranch organization, essentials of breeding and feeding, transportation, pelting, losses from depredations, sanitation and treatment of disease, etc.

CONTAINERS

Packing Apples in Boxes—by Raymond R. Pailthorp and Frank S. Kinsey. (Dept. of Agriculture, Farmers' Bulletin No. 1457.) Price, 5 cents. Development of western boxed packing, community packing houses, equipment, supplies, method of wrapping, apple packs, etc.

Relative Merits of Cotton and Jute Cement Sacks—by Robert J. Morris. (Dept. of Commerce, Standards Bureau Technologic Paper No. 292.) Price, 10 cents. Fabric, methods of testing the sacks, results of sack tests, etc.

COST OF LIVING STATISTICS

The Use of Cost-of-Living Figures in Wage Adjustments, by Elma B. Carr. (Bureau of Labor Statistics Bulletin No. 369.) Price, 65 cents. Covers coal mining industry, meat-packing industry, shipping industry, railroads, minimum wage boards, industrial agencies, conferences between employers and employees, etc.

DAIRY PRODUCTS

Effect of Various Factors on the Creaming Ability of Market Milk—by H. A. Whittaker, and others. (Dept. of Agriculture, Bulletin No. 1344.) Price, 5 cents. Effect of pasteurizing market milk, effect of heating milk to various temperatures, etc.

Effect of Age and Development on Butterfat Production of Register-of-Merit Jersey and Advanced-Register Guernsey Cattle—by R. R. Graves, and M. H. Fohrman. (Dept. of Agriculture, Bulletin No. 1352.) Price, 5 cents.

Continued on next page

EDUCATION

Lessons on Cotton for Elementary Schools—by F. A. Merrill. (Dept. of Agriculture, Misc. Circular No. 43.) Price, 10 cents.

Extension Work Among Negroes, Conducted by Negro Agents, 1923—by J. A. Evans. (Dept. of Agriculture, Circular No. 355.) Price, 5 cents. Organization, finances, retarding influences, etc.

FORESTRY AND FOREST PRODUCTS

Fire and the Forest, California Pine Region—by S. B. Show, and E. I. Kotok. (Dept. of Agriculture, Circular No. 358.) Price, 5 cents. Nature and kinds of fire damage, what California brush fields mean, fire on cut-over lands, etc.

Selling Black-Walnut Timber—by Warren D. Brush. (Dept. of Agriculture, Farmers' Bulletin No. 1459.) Price, 5 cents. Black walnut as a farm crop, suggestions on cutting and storing cut timber, log weights and freight rates, cost of felling and hauling, and sources of additional information.

The French Lumber Market—by Axel H. Oxholm. (Trade Promotion Series No. 19.) Price, 65 cents. Forest resources of France, French lumber industry, French lumber import trade, wood-consuming industries, etc.

FOREIGN COMMERCE AND NAVIGATION STATISTICS

Foreign Commerce and Navigation of the United States for the Calendar Year 1924. (Dept. of Commerce.) Price, $2.00.

HOME ECONOMICS

Home Baking—by Charlotte Chatfield. (Dept. of Agriculture, Farmers' Bulletin No. 1450.) Price, 5 cents.

The Family Living From the Farm, Data from 30 Farming Localities in 21 States for the Years 1918 to 1922—by H. W. Hawthorne. (Dept. of Agriculture, Bulletin No. 1338.) Price, 5 cents.

Simple Plumbing Repairs in the Home—by George M. Warren. (Dept. of Agriculture, Farmers' Bulletin No. 1460.) Price, 5 cents. Faucets, stop and waste cocks, flush valves for low tanks, clogged pipes, thawing pipes, leaks in pipes and tanks, cracked laundry tubs, and hose menders or splices.

INTERSTATE COMMERCE COMMISSION

Interstate Commerce Commission Reports, Vol. 84, Decisions of the Interstate Commerce Commission of the United States (Valuation Reports), November, 1923-January, 1925. Price, $2.25.

MERCHANT MARINE

Seagoing Vessels of the United States, 1925. (Dept. of Commerce). Price, 50 cents. This volume is a part of the Fifty-Seventh Annual List of Merchant Vessels of the United States for the year ended June 30, 1925.

MINERAL RESOURCES

Mineral Resources of the United States, 1922. Part II, Nonmetals. (Dept. of Commerce, Bureau of Mines.) Price, $1.00. Covers fuel briquets, peat, asphalt and related bitumens, salt, bromine, and calcium chloride, asbestos, nitrates, graphite, fuller's earth, etc., with index and illustrations.

MINES AND MINING

Analyses of Alabama Coals. (Dept. of Commerce, Mines Bureau Technical Paper No. 347.) Price, 15 cents. Coal fields of Alabama, mining methods, analyses of mine samples, description of samples, analyses of delivered coal, with index.

Silicosis Among Miners, by R. R. Sayers. (Dept. of Commerce, Mines Bureau Technical Paper No. 372.) Price, 15 cents. Covers early investigations, prevalence of silicosis, conditions promoting silicosis, stages of silicosis, determination of dust in the air, methods of protection against dust, etc., with summary and references.

PAPER PRODUCTS

Paper and Paper Products in the Union of South Africa and Egypt. (Dept. of Commerce, Trade Information Bulletin No. 363.) Price, 10 cents. Varieties in greatest demand, packing and shipping, quotations and credits, methods of distribution, etc.

PORTS

The ports of Jacksonville, Fernandina, Miami, Key West, Tampa, and South Boca Grande, Florida. (Dept. of Commerce, Port Series No. 8.) Price, $1.10. Covers port and harbor conditions, port services and charges, fuel and supplies, communications, and commerce of the ports, etc.

PRICES

What Makes the Price of Oats—by Hugh B. Killough. (Dept. of Agriculture, Bulletin No. 1351.) Price, 10 cents. Factors affecting annual price of oats, application of seasonal trend in estimating price, a study of wheat prices, with appendices.

Wholesale Prices, 1890 to 1924. (Labor Dept., Bulletin No. 390.) Price, 35 cents. Method of computing index numbers, commodities included in the present bulletin, prices of commodities in 1924, average wholesale prices of important commodities, 1890 to 1924, etc., with tables and appendix.

PRINTING INDUSTRY

Survey of Hygienic Conditions in the Printing Trades—by S. Kjaer. (Labor Dept., Bulletin No. 392.) Price, 50 cents. Type founding, presswork, binding, ink grinding, roller making, sanitation, welfare, personnel, hazards, accidents, etc.

PUBLIC EMPLOYMENT SERVICES

Proceedings of the Twelfth Annual Meeting of the International Association of Public Employment Services, Held at Chicago, Illinois, May 19-23, 1924. (Labor Dept., Bulletin No. 400.) Price, 10 cents.

PUBLIC FINANCE

Financial Statistics of States, 1923. (Dept. of Commerce, Bureau of Census.) Price, 20 cents.

Investments in Latin America: I, Argentina—by Frederic M. Halsey, and G. Butler Sherwell. (Dept. of Commerce, Trade Information Bulletin No. 362.) Price, 10 cents. Foreign investments in Argentina, the public debt of Argentina, provincial debt, history of national debt, municipal debt, Federal loans and finances, etc.

PUBLIC LANDS

Decisions of the Department of the Interior in Cases Relating to the Public Lands, Edited by Daniel M. Greene. Vol. 50, Aug. 1, 1923-Dec. 31, 1924. (Dept. of Interior.) Price, $2.00. Table of cases reported, opinion by solicitor, table of cases cited, table of overruled and modified cases, acts of Congress cited and construed, etc.

RECLAMATION WORK

Work of the Newlands Reclamation Project Experiment Farm in 1922 and 1923, by F. B. Headly, and others. (Dept. of Agriculture, Circular No. 352.) Price, 5 cents.

RUBBER INDUSTRY

Wearing Qualities of Tire Treads as Influenced by Reclaimed Rubber, by W. L. Holt, and P. L. Wormeley. (Dept. of Commerce, Bureau of Standards, Technologic Paper No. 294.) Price, 5 cents. Covers purpose, description of road tests, results of road tests, comparison of road tests with laboratory tests, with conclusions.

Possibilities for Para Rubber Production in the Philippine Islands, by C. F. Vance, and others. (Dept. of Commerce, Trade Promotion Series No. 17.) Price, 20 cents. Rubber production in Philippine Islands, survey of potential rubber lands, soils, labor and wages, etc., with bibliography.

Rubber Industry and trade of Japan, by C. R. Cameron. (Dept. of Commerce., Trade Information Bulletin No. 365.) Price, 10 cents. Supply of crude rubber, rubber manufacture, exports of rubber manufactures, and Japanese market for rubber goods, etc.

Rubber Production in the Amazon Valley, by William L. Schurz, and others. (Dept. of Commerce, Trade Promotion Series No. 23.) Price, 65 cents. History of the Amazon rubber industry, present state of native wild rubber industry, possibilities of plantation development, Amazon Valley and Middle East compared; bibliography.

United States Government Master Specification No. 59a, for Rubber Goods, Methods of Physical Tests and Chemical Analyses. (Dept. of Commerce, Standards Bureau Circular No. 232.) Price, 10 cents. Construction, materials, branding, sampling and inspection, physical tests, specific details of testing, methods of chemical analysis, etc.

STANDARD WEIGHTS AND MEASURES

History of the Standard Weights and Measures of the United States, by Louis A. Fischer. (Bureau of Standards, Miscellaneous Series No. 64.) Price, 15 cents.

STANDARDIZATION

National Directory of Commodity Specifications. (Dept. of Commerce, Standards Bureau, Miscellaneous Publications No. 65.) Price, $1.25. Classified and alphabetical lists, and brief descriptions of existing commodity specifications.

Continued on page 359

Report of the World War Foreign Debt Commission—continued from p. 334

pressure by this means on any foreign government to settle its indebtedness, and while this country has every desire to see its surplus resources at work in the economic reconstruction and development of countries abroad, national interest demands that our resources be not permitted to flow into countries which do not honor their obligations to the United States and through the United States to its citizens.

There is set out below a report by countries of the activities of the commission during the past year:

Armenia

There is no Armenian government in existence.

Austria

The time of payment of principal and interest of the Austrian obligation held by this Government was extended until June 1, 1943.

Belgium

The debt-funding agreement was signed on August 18, 1925, and was later approved by the President. It will be submitted to Congress for its approval.

Czechoslovakia

A settlement was agreed upon on October 9, 1925, subject, however, to ratification by the constitutional authorities of Czechoslovakia, and to the approval of the President and Congress. A debt funding agreement was executed on October 13, 1925, and approved by the President the same day.

Esthonia

A debt funding agreement on this basis was executed on October 28, 1925, and approved by the President the same day.

France

A French debt commission, headed by M. Joseph Caillaux, finance minister of France, appeared before the commission on September 24, 1925, to negotiate a settlement of the French debt to the United States. Joint meetings with the French Representatives were held on September 24, 25, 28, and October 1, 1925. The two commissions were unable to reach an agreement before the departure of the French commission from Washington on October 2, 1925. The negotiations have not been suspended, however. It is expected that they will be continued either through regular diplomatic channels or through special representatives of the French Government coming to this country to confer with the commission.

Greece

In a note dated August 30, 1925, the Greek Government notified the American Chargé d'Affaires at Athens that Mr. C. Simopoulos, the Greek minister at Washington had been named as the representative of the Greek Government to negotiate a settlement of its debt to the United States. The Greek minister has not yet opened negotiations with the commission.

Italy

Meetings of the commission with the Italian commission were held on November 2, 4, and 12, 1925. During the course of the negotiations other meetings were held between representatives of the two commissions and their experts.

An agreement was reached at the final meeting on November 12, 1925. A debt funding agreement was signed on November 14, 1925, and was approved by the President the same day. It will be submitted to Congress for its approval.

Latvia

A debt-funding agreement was executed [on September 24, 1925] subject to the approval of the Saeima of Latvia and the approval of Congress. The agreement was approved by the President. It will be submitted to Congress at the next session.

Liberia

No proposals regarding the funding of the Liberian debt have been made since the publication of the last annual report. The commission has received informal advices, however, to the effect that the indebtedness will probably be paid in cash during the present fiscal year.

Lithuania

The debt settlement with Lithuania referred to in the last annual report was approved by the Seimas of Lithuania on December 18, 1924, and by Congress on December 22, 1924.

On October 8, 1925, in accordance with the terms of the agreement, the Treasury canceled and surrendered to Mr. Kazys Bizauskas, the Lithuanian Minister at Washington, the original obligations received from his Government in exchange for new bonds of Lithuania issued under the debt-funding agreement in the principal amount of $6,030,000. As $30,000 of the above principal amount was paid on June 15, 1925, the bond for this amount was immediately canceled and returned to the Minister.

Nicaragua

As stated in the last annual report the indebtedness of Nicaragua has not been funded. Payments are being made from time to time on account of the obligations held by the United States.

Poland

The debt settlement with Poland described in the last annual report was approved by the Polish Diet on January 23, 1925. The settlement was approved by Congress on December 22, 1924.

On May 21, 1925, the Treasury canceled and surrendered the original obligations of Poland in exchange for new bonds issued under the debt-funding agreement in the principal amount of $178,560,000.

Rumania

On November 9, 1925, a Rumanian commission appeared before the commission to enter into negotiations for the settlement of the Rumanian debt to the United States. It is expected that the negotiations will be concluded shortly.

Russia

There is no government recognized by the United States.

Yugoslavia

It is expected that Yugoslavia will send to the United States in the course of the next few months a commission to negotiate a settlement of its indebtedness, although no formal advices to this effect have as yet been received by the commission.—Extracts, see 1, p. 359.

Death Duties in the States—continued from p. 339

where the bond was physically located, (3) the state of the corporation issuing the bond, and (4) the United States. It is indeed perilous to die owning stocks and bonds of corporations of states other than the state of domicile of the owner.

Seventeen states under such circumstances, undertake to tax coupon bonds regardless of the situs of the bonds or the domicile of the decedent.

Six states attempt to tax registered, and five states tax unregistered or coupon bonds not located there, issued by a foreign corporation and owned by a non-resident decedent, forsooth, because the corporation itself may be seized of property within the taxing state.

Each of the forty-six states imposing a death duty, with the possible exception of California, Maryland, Nebraska, Rhode Island and Vermont, imposes a tax upon tangible personal property within its jurisdiction.

Fifteen states seek to impose a tax upon unsecured notes, if the obligor be a resident. The United States Supreme Court upheld a tax by New York on notes of an Illinois and Virginia corporation owned by a Connecticut decedent merely because the notes were in a safety-deposit box in New York City.

Twenty-four states impose a tax upon bonds and mortgages secured by real estate. Yet the state has collected its full real property tax. Thirty states tax cash on deposit within the taxing state.

Thirty states impose a tax upon the value of a business conducted within a state by a non-resident at his death.

Eleven states require court proceedings in fixing the tax. Some of the states, such as New York, require transfer tax or court proceedings only if the benefits of exemptions or deductions are expected; others require it under any conditions. The cost of these proceedings sometimes exceeds the tax, and in others almost exceeds the value of the property sought to be transferred. Michigan requires the employment of counsel; Missouri and other states require ancillary administration and the costs incidental thereto. The time occupied, and the trouble and expense necessary under these conditions render particularly severe this requirement.

Deductions: The infinite variety of the objects sought to be taxed by the different states and the Federal Government finds its counterpart in the variety and diversity of the laws, and the interpretation thereof, having to do with exemptions and deductions. Four states allow only local debts as a deduction. Some states allow no deductions at all. Thirty-two states permit deduction of only a proportion of the debts, that is, the same proportion of the entire debts, which the property taxed bears to the whole estate, wherever situated. The same states apply the same rule to the deduction of administration expenses.

Twenty states before imposing the death duty, permit the deduction of the Federal estate tax. These states are those that have a legacy tax, as contradistinguished from a transfer or estate tax, though this is not the reason of the diversity of the rulings, or of the construction by the courts. Sixteen states do not permit the deduction of the Federal estate tax, and only eight states allow as a a deduction, the inheritance taxes paid other states.

The states that allow exemptions, because of the relationships of the beneficiaries, or for other reasons, divide themselves equally into two classes, eighteen allowing the full exemption, and eighteen allowing a proportionate exemption.

This is the picture—painted with rather a broad brush—of the diversity of death duty legislation among the states, and it gives a rough running idea of the condition of the multiple inheritance tax systems operating within the United States.—Extracts, see 13, p. 359.

Proposed Revenue Act for 1926—continued from p. 333

19. The bill creates in the Bureau of Internal Revenue the office of special deputy commissioners of Internal Revenue and provides that not more than 6 special deputy commissioners shall hold office at any one time. The special deputy commissioners are to be appointed by the President, by and with the advice and consent of the Senate and are to have terms of office of 10 years with salaries fixed at $8,000 a year. These positions have been created with the hope that the creation of positions with long tenure of office and the salaries named will enable the Commissioner to retain the services of his more experienced men. These appointments are made to assist the Commissioner in retaining and securing the services of experts, and closing the complicated war tax cases still pending in the Bureau.

20. The bill provides for the creation of a joint commission on taxation, which shall make its report on or before December 31, 1927. This commission is to be composed of 15 members; 5 members who shall be of the Senate, 5 members who shall be members of the House; and 5 members who shall be selected from the general public. The members of the Senate are to be appointed by the President of the Senate; the members of the House are to be appointed by the Speaker of the House; and the other 5 members are to be appointed by the President. The members selected from the general public will be required to serve without compensation except reimbursement for travel and the like. The members of the House and Senate will be required to serve without compensation in addition to that received for their services as members of Congress. The purpose of the commission is to investigate and report upon the operation, effects and administration of the Federal system of income and other internal taxes and upon any proposals or measures which in the judgment of the commission might be employed to simplify or improve the operation or administration of such system of taxation.

Recent Government Bulletins

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STANDARDIZATION—continued

The United States Government Specification for Portland Cement. (Standards Bureau Circular No. 33, reprint.) Price, 10 cents. Covers official adoption of U. S. Government specification for portland cement, interpretation of results, explanation of changes made in revising the original U. S. Government Specification for portland cement, etc.

United States Government Master Specification No. 304, for Bleached Cotton Sheets, Medium and High Count Sheeting. (Standards Bureau Circular No. 274.) Price, 5 cents. Covers grade, material, general requirements, detail requirements, methods of inspection and tests, packing and marketing, with additional information, and general specifications.

United States Government Master Specification No. 233a, for Rubber Sheeting. (Standard Bureau Circular No. 253.) Price, 5 cents.

U. S. STATISTICAL ABSTRACT

Statistical Abstract of the United States, 1924. (Dept. of Commerce.) Price, $1.00 paper. Area and population, vital statistics, immigration and emigration, education, climate, National Government finances, money and banking, wealth, business finance, prices, wages, telephone, telegraph, and cable systems, electric light and power, etc.

VITAL STATISTICS

Birth, Stillbirth, and Infant Mortality Statistics for the Birth Registration Area of the United States, 1923. Ninth Annual Report. (Dept. of Commerce, Census Bureau.) Price, 60 cents.

U. S. Supreme Court Decisions

Section 31 (b) of the Revenue Act of 1917

continued from p. 353

appeared in a surplus or undivided profits account (as the profits earned within part of a year would, where a corporation closed its books monthly, quarterly, or semi-annually) or whether they still rest as current earnings without formal determination or specific allocation.

Besides this general aim, Congress had the special aim of making the war profits pay the high war taxes. To this end it was essential that the law should, in determining the applicable tax rate, disregard any declaration of the corporation as to what year's profits were being distributed. Not only was it essential that every such declaration of the corporation should be disregarded, but also that the dividend should not thereupon be deemed to have been paid from the profits of the earliest year (since March 1, 1913) of which there remained accumulated profits available for distribution. To accomplish the purpose of Congress it was necessary that the dividend be deemed to have been paid out of the available profits or earnings of the most recent year or years. Its intention so to provide was adequately expressed by the use of the phrase "most recently accumulated" in connection with the words "undivided profits or surplus." As, in the case at bar, there were profits of the year 1917 ample to cover all dividends, those here in suit must be deemed to have been paid therefrom.—Extracts.

Mr. Justice Van Devanter, Mr. Justice McReynolds, Mr. Justice Sutherland, and Mr. Justice Butler, dissent.

SOURCE MATERIAL

Sources from Which Material in This Number is Taken

Articles for which no source is given have been specially prepared for this number of THE CONGRESSIONAL DIGEST

1—The Annual Report of the Secretary of the Treasury on the State of the Finances for the fiscal year ending June 30, 1925.

2—Proceedings of National Conference on Inheritance and Estate Taxation held under the auspices of the National Tax Association at Washington, D. C., Feb. 19-20, 1925, 302 pp.

3—Statement by the Secretary of the Treasury to the Committee on Ways and Means. U. S. House, Oct. 19, 1925.

4—Report of the National Committee on Inheritance Taxation to the National Conference on Estate and Inheritance Taxation held at New Orleans, La., Nov. 10, 1925. 90 pp. With Inheritance Taxation bibliography.

5—New Republic—Special Taxation Section, Nov. 4, 1925.

6—Hearings before the Ways and Means Committee U. S. House of Representatives, Oct. 19-Nov. 3, 1925. 14 parts.

7—North American Review, Sept.-Oct., 1925.

8—National Republic, September, 1925.

11—The Washington Post, March 1, 1925.

12—Practical Difficulties in the Settlement of Decedents' Estates: by Roy C. Osgood. pp. 24-37 in Proceedings of National Conference on Inheritance and Estate Taxation. See 2 above.

13—Uncertainties and Diversities in Death Duty Legislation and Interpretations: by Russel L. Bradford—pp. 12-24. See 2 above.

14—Address by Hon. Garrard B. Winston, Undersecretary of the Treasury, at Annual Conference on Taxation under the auspices of the National Tax Association, at St. Louis, Mo., Sept. 17, 1924.

NOTICE TO SUBSCRIBERS

A complete file of Volume IV of THE CONGRESSIONAL DIGEST consists of the following numbers for the months of October, 1924, to April, 1925, and October, 1925, to December, 1925:

No. 1—America's Stand Against Liquor

No. 2—The Dawes Plan for German Reparation Payments

No. 3—Repeal of Federal Income Tax Publicity Law

No. 4—National Defense and the Limiting of Naval Armament

No. 5—Postal Pay and Rate Issue

No. 6—Review of Sixty-eighth Congress: New Public Laws; Record Investigation; Special Session of Sixty-ninth Congress; Members of the Sixty-ninth Congress by State Delegations (As of March, 1925)

No. 7—Federal Department of Aeronautics

No. 8-9—(one number)—Congress and Cooperative Marketing

No. 10-11 (one number)—Congress and the Coal Problem

No. 12—The Sixty-ninth Congress Convenes—Annual Message of the President to the Congress; Proposed Revenue Act for 1926; Special Features: Pro and Con Discussion of Federal Estate Tax Repeal.